

INA - INDUSTRIJA NAFTE, d.d.

and INA GROUP

Consolidated and separate

Financial Statements for the year ended

31 December 2014

Together with Independent Auditors' Report

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Responsibility for the financial statements

Pursuant to the Croatian Accounting Law, the Management Board is responsible for ensuring that financial statements are prepared for each financial year in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union, which give a true and fair view of the state of affairs and results of INA - Industrija Nafte, d.d. ("the Company") and its subsidiaries ("the Group") for that period.

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

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

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

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

Signed on behalf of the Group:


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

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

18 March 2015

Independent Auditors' Report

To the shareholders and the Board of INA - Industrija Nafta, d.d.

We have audited the accompanying financial statements ("the financial statements") of INA - Industrija Nafta, d.d. ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated and separate statement of financial position as at 31 December 2014, and consolidated and separate statement of comprehensive income, consolidated and separate statement of changes in equity and consolidated and separate cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information (as set out on pages 4 to 125).

Management Responsibility

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Independent Auditors' Report (continued)

Opinion

In our opinion financial statements present fairly, in all material respects, the financial position of the Company and the Group as at 31 December 2014 and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Other matters

The financial statements of the Company and the Group as at and for the year ended 31 December 2013 were audited by another auditor who expressed an unmodified opinion on those statements on 19 March 2014.



Slaven Đuroković
Director and certified auditor

Ernst & Young d.o.o. Zagreb
Republic of Croatia

Zagreb, 18 March 2015

INA - INDUSTRIJA NAFTE, d.d.
 INA Group Consolidated Statement of Profit or Loss
 For the year ended 31 December 2014
 (all amounts are presented in HRK millions)

	Note	Year ended 31 December 2014	Year ended 31 December 2013
Sales revenue			
a) domestic		14,187	17,531
b) exports		9,572	9,913
Total sales revenue	4	23,759	27,444
Capitalised value of own performance		459	361
Other operating income	5	277	488
Total operating income		24,495	28,293
Changes in inventories of finished products and work in progress		(935)	(91)
Cost of raw materials and consumables		(11,353)	(13,727)
Depreciation and amortisation	6	(2,132)	(2,261)
Other material costs		(2,455)	(1,983)
Service costs		(1,000)	(815)
Staff costs	7	(2,467)	(2,415)
Cost of other goods sold		(3,705)	(5,536)
Impairment charges (net)	8	(2,052)	(2,769)
Provision for charges and risks (net)	9	(108)	(201)
Operating expenses		(26,207)	(29,798)
Loss from operations		(1,712)	(1,505)
Finance income	10	234	213
Finance costs	11	(856)	(524)
Net loss from financial activities		(622)	(311)
Loss before tax		(2,334)	(1,816)
Income tax benefit	12	437	308
Loss for the year		(1,897)	(1,508)
Attributable to:			
Owners of the Company		(1,897)	(1,508)
Non-controlling interests		-	-
		(1,897)	(1,508)
Earnings per share			
Basic and diluted loss per share (kunas per share)	13	(189.7)	(150.8)

Signed on behalf of the Group on 18 March 2015 by:

András Huszár
 Executive Director for Finance

Zoltán Sándor Áldott
 President of the Management Board

The accompanying accounting policies and notes form an integral part of this consolidated statement of profit or loss.

INA - INDUSTRIJA NAFTE, d.d.

INA Group Consolidated Statement of Other Comprehensive Income

For the year ended 31 December 2014

(all amounts are presented in HRK millions)

	<u>Note</u>	<u>Year ended 31 December 2014</u>	<u>Year ended 31 December 2013</u>
Loss for the year		(1,897)	(1,508)
Other comprehensive income, net of income tax:			
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Remeasurement of defined benefit obligation	33	-	(11)
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translating foreign operations	36	567	(210)
Gain/(loss) on available-for-sale financial assets	35	115	(7)
Other comprehensive gain/(loss), net of income tax		682	(228)
Total comprehensive loss for the year		(1,215)	(1,736)
Attributable to:			
Owners of the Company		(1,215)	(1,736)
Non-controlling interests		-	-

Signed on behalf of the Group on 18 March 2015 by:

András Huszár 
Executive Director for Finance

Zoltán Sándor Áldott 
President of the Management Board

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

INA - INDUSTRIJA NAFTE, d.d.
 INA, d.d. Separate Statement of Profit or Loss
 For the year ended 31 December 2014
 (all amounts are presented in HRK millions)

		Year ended	Year ended
	Note	31 December 2014	31 December 2013
Sales revenue			
a) domestic		13,394	15,558
b) exports		7,685	8,324
Total sales revenue	4	<u>21,079</u>	<u>23,882</u>
Capitalised value of own performance		4	4
Other operating income	5	<u>361</u>	<u>480</u>
Total operating income		21,444	24,366
Changes in inventories of finished products and work in progress		(705)	(71)
Cost of raw materials and consumables		(11,624)	(14,105)
Depreciation and amortisation	6	(1,980)	(2,101)
Other material costs		(1,960)	(1,755)
Service costs		(803)	(657)
Staff costs	7	(1,488)	(1,472)
Cost of other goods sold		(2,704)	(2,210)
Impairment and charges (net)	8	7	(3,633)
Provision for charges and risks (net)	9	<u>(79)</u>	<u>(146)</u>
Operating expenses		<u>(21,336)</u>	<u>(26,150)</u>
Profit/(loss) from operations		108	(1,784)
Finance income	10	807	412
Finance costs	11	<u>(765)</u>	<u>(595)</u>
Net profit/(loss) from financial activities		<u>42</u>	<u>(183)</u>
Profit/(loss) before tax		150	(1,967)
Income tax benefit	12	<u>481</u>	<u>334</u>
Profit/(loss) for the year		<u>631</u>	<u>(1,633)</u>

Signed on behalf of the Company on 18 March 2015 by:

András Huszár



Executive Director for Finance

Zoltán Sándor Áldott



President of the Management Board

The accompanying accounting policies and notes form an integral part of this separate statement of profit or loss.

INA - INDUSTRIJA NAFTE, d.d.
 INA, d.d. Separate Statement of Other Comprehensive Income
 For the year ended 31 December 2014
 (all amounts are presented in HRK millions)

	Year ended	Year ended
Note	31 December 2014	31 December 2013
Profit/(loss) for the year	631	(1,633)
Other comprehensive income, net of income tax:		
<i>Items that will not be reclassified subsequently to profit or loss:</i>		
Remeasurement of defined benefit obligation	33	(9)
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translating foreign operations	36	(181)
Gain/(loss) on available-for-sale financial assets	35	(7)
Other comprehensive income/(loss), net of income tax	711	(197)
Total comprehensive income/(loss) for the year	1,342	(1,830)

Signed on behalf of the Company on 18 March 2015 by:

András Huszár

Executive Director for Finance

Zoltán Sándor Ádott

President of the Management Board

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

INA - INDUSTRIJA NAFTE, d.d.
 INA Group Consolidated Statement of Financial Position
 At 31 December 2014
(all amounts are presented in HRK millions)

ASSETS	Note	31 December 2014	31 December 2013
Non-current assets			
Intangible assets	14	457	524
Property, plant and equipment	15	14,038	15,979
Goodwill	16	183	183
Investments in associates	18	22	22
Other investments	19	23	169
Long-term receivables and other assets	20	170	233
Deferred tax	12	1,742	1,127
Available-for-sale assets	21	462	330
Total non – current assets		17,097	18,567
Current assets			
Inventories	22	1,924	3,219
Trade receivables, net	23.39	1,998	2,564
Other receivables	24	181	426
Corporate Income tax receivables		112	421
Other current assets	25	282	144
Prepaid expenses and accrued income		154	166
Cash and cash equivalents	26	467	402
Total current assets		5,118	7,342
TOTAL ASSETS		22,215	25,909

Signed on behalf of the Group on 18 March 2015 by:

András Huszár 
 Executive Director for Finance

Zoltán Sándor Áldott 
 President of the Management Board

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

INA - INDUSTRIJA NAFTE, d.d.

INA Group Consolidated Statement of Financial Position (continued)

At 31 December 2014

(all amounts are presented in HRK millions)

EQUITY AND LIABILITIES	Note	31 December 2014	31 December 2013
Capital and reserves			
Share capital	34	9,000	9,000
Revaluation reserve	35	121	6
Other reserves	36	2,851	2,284
Accumulated loss/retained earnings	37	(311)	1,586
Equity attributable to owners of the Company		11,661	12,876
Non-controlling interests	38	(1)	(1)
TOTAL EQUITY		11,660	12,875
Non – current liabilities			
Long-term loans	30	628	1,889
Other non-current liabilities	31	64	76
Employee benefit obligation	33	172	135
Provisions	32	2,837	2,754
Deferred tax liabilities		9	7
Total non-current liabilities		3,710	4,861
Current liabilities			
Bank loans and overdrafts	27	2,631	2,975
Current portion of long-term loans	27	199	299
Trade payables	28.39	1,713	2,841
Taxes and contributions	28	1,054	720
Other current liabilities	28	554	690
Accruals and deferred income	29	114	126
Employee benefit obligation	33	12	11
Provisions	32	568	511
Total current liabilities		6,845	8,173
Total liabilities		10,555	13,034
TOTAL EQUITY AND LIABILITIES		22,215	25,909

Signed on behalf of the Group on 18 March 2015 by:

András Huszár

Executive Director for Finance

Zoltán Sándor Áldos

President of the Management Board

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

INA - INDUSTRIJA NAFTE, d.d.
 INA, d.d. Separate Statement of Financial Position
 At 31 December 2014
 (all amounts are presented in HRK millions)

ASSETS	Note	31 December 2014	31 December 2013
Non-current assets			
Intangible assets	14	455	522
Property, plant and equipment	15	12,564	14,340
Investment in subsidiaries	17	1,133	1,127
Investments in associates	18	22	22
Other investments	19	23	795
Long-term receivables	20	178	239
Deferred tax	12	1,702	1,076
Available-for-sale assets	21	462	330
Total non-current assets		16,539	18,451
Current assets			
Inventories	22	1,659	2,526
Intercompany receivables	39	117	1,677
Trade receivables, net	23.39	1,399	1,291
Other receivables	24	122	330
Corporate Income tax receivables		92	397
Other current assets	25	789	150
Prepaid expenses and accrued income		149	98
Cash and cash equivalents	26	327	252
Total current assets		4,654	6,721
TOTAL ASSETS		21,193	25,172

Signed on behalf of the Company on 18 March 2015 by:

András Huszár 
 Executive Director for Finance

Zoltán Sándor Áldott 
 President of the Management Board

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

INA - INDUSTRIJA NAFTE, d.d.
 INA, d.d. Separate Statement of Financial Position (continued)
 At 31 December 2014
 (all amounts are presented in HRK millions)

EQUITY AND LIABILITIES	Note	31 December 2014	31 December 2013
Capital and reserves			
Share capital	34	9,000	9,000
Revaluation reserve	35	121	6
Other reserves	36	2,529	1,933
Accumulated loss/retained earnings	37	(174)	2,390
TOTAL EQUITY		11,476	13,329
Non-current liabilities			
Long term loans	30	619	1,826
Other non-current liabilities	31	63	65
Employee benefit obligation	33	128	98
Provisions	32	2,849	2,707
Total non-current liabilities		3,659	4,696
Current liabilities			
Bank loans and overdrafts	27	2,391	2,764
Current portion of long-term loans	27	187	255
Intercompany payables	39	443	569
Trade payables	28.39	1,256	2,146
Taxes and contributions	28	970	561
Other current liabilities	28	293	415
Accruals and deferred income	29	88	40
Employee benefit obligation	33	8	7
Provisions	32	422	390
Total current liabilities		6,058	7,147
Total liabilities		9,717	11,843
TOTAL EQUITY AND LIABILITIES		21,193	25,172

Signed on behalf of the Company on 18 March 2015 by:

András Huszár 
 Executive Director for Finance

Zoltán Sándor Áldott 
 President of the Management Board

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

INA - INDUSTRIJA NAFTE, d.d.
 INA Group Consolidated Statement of Changes in Equity
 For the year ended 31 December 2014
 (all amounts are presented in HRK millions)

	Share capital	Other reserves	Revaluation reserves	Retained earnings/Accumulated loss	Attributable to equity holders of the parent	Non controlling interest	Total
Balance at 1 January 2013	9,000	2,505	13	3,437	14,955	(1)	14,954
Loss for the year	-	-	-	(1,508)	(1,508)	-	(1,508)
Other comprehensive loss, net	-	(221)	(7)	-	(228)	-	(228)
Total comprehensive income for the year	-	(221)	(7)	(1,508)	(1,736)	-	(1,736)
Dividend paid	-	-	-	(343)	(343)	-	(343)
Balance at 31 December 2013	9,000	2,284	6	1,586	12,876	(1)	12,875
Loss for the year	-	-	-	(1,897)	(1,897)	-	(1,897)
Other comprehensive income, net	-	567	115	-	682	-	682
Total comprehensive income/(loss) for the year	-	567	115	(1,897)	(1,215)	-	(1,215)
Balance at 31 December 2014	9,000	2,851	121	(311)	11,661	(1)	11,660

Signed on behalf of the Group on 18 March 2015 by:

András Huszár
 Executive Director for Finance

Zoltán Sándor Áldott
 President of the Management Board

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

INA - INDUSTRIJA NAFTE, d.d.
 INA, d.d. Separate Statement of Changes in Equity
 For the year ended 31 December 2014
 (all amounts are presented in HRK millions)

	Share capital	Other reserves	Revaluation reserves	Retained earnings/Accumulated loss	Total
Balance at 1 January 2013	9,000	2,123	13	4,366	15,502
Loss for the year	-	-	-	(1,633)	(1,633)
Other comprehensive loss, net	-	(190)	(7)	-	(197)
Total comprehensive income for the year	-	(190)	(7)	(1,633)	(1,830)
Dividend paid	-	-	-	(343)	(343)
Balance at 31 December 2013	9,000	1,933	6	2,390	13,329
Profit for the year	-	-	-	631	631
Other comprehensive income, net	-	596	115	-	711
Total comprehensive income/(loss) for the year	-	596	115	631	1,342
Loss brought forward from legal merger	-	-	-	(3,195)	(3,195)
Balance at 31 December 2014	9,000	2,529	121	(174)	11,476

Signed on behalf of the Company on 18 March 2015 by:

András Huszár 
 Executive Director for Finance

Zoltán Sándor Áldott 
 President of the Management Board

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

INA - INDUSTRIJA NAFTE, d.d.
 INA Group Consolidated Statement of Cash Flows
 For the year ended 31 December 2014
 (all amounts are presented in HRK millions)

	Year ended	Year ended
Note	31 December 2014	31 December 2013
Loss for the year	(1,897)	(1,508)
Adjustments for:		
Depreciation and amortisation	2,132	2,261
Income tax benefit recognised in income statement	(437)	(308)
Impairment charges (net)	2,052	2,769
Gain on sale of property, plant and equipment	(16)	(4)
Foreign exchange loss/(gain)	249	(35)
Interest expense (net)	196	176
Other finance expense recognised in income statement	87	88
Increase in provisions	47	199
Decommissioning interests and other provision	89	82
Other non-cash items	5	(38)
	2,507	3,682
Movements in working capital		
Decrease in inventories	1,201	88
Decrease/(increase) in receivables and prepayments	839	(303)
(Decrease)/increase in trade and other payables	(534)	1,599
Cash generated from operations	4,013	5,066
Taxes paid	(154)	(490)
Net cash inflow from operating activities	3,859	4,576
Cash flows used in investing activities		
Capital expenditures, exploration and development costs	(1,292)	(1,832)
Payments for intangible assets	(297)	(248)
Proceeds from sale of non-current assets	34	3
Payments for acquisition of subsidiaries	-	(7)
Dividends received from companies classified as available-for-sale and from other companies	7	3
Interest received and other financial income	34	25
Investments and loans to third parties, net	(49)	(80)
Net cash used for investing activities	(1,465)	(2,136)

INA - INDUSTRIJA NAFTE, d.d.
 INA Group Consolidated Statement of Cash Flows (continued)
 For the year ended 31 December 2014
 (all amounts are presented in HRK millions)

	Year ended	Year ended
Note	31 December 2014	31 December 2013
Cash flows from financing activities		
Additional long-term borrowings	2,202	6,160
Repayment of long-term borrowings	(3,706)	(9,878)
Additional short-term borrowings	14,715	15,086
Repayment of short-term borrowings	(15,258)	(13,386)
Dividends paid	-	(343)
Interest paid on long-term loans	(45)	(88)
Interest paid on short term loans and other interest charges	(209)	(72)
Net cash used in financing activities	(2,301)	(2,521)
Net increase/(decrease) in cash and cash equivalents		
At 1 January	402	488
Effect of foreign exchange rate changes	(28)	(5)
At 31 December	467	402

Signed on behalf of the Group on 18 March 2015 by:

András Huszár 
 Executive Director for Finance

Zoltán Sándor Áldott 
 President of the Management Board

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

INA - INDUSTRIJA NAFTE, d.d.
INA, d.d. Separate Statement of Cash Flows
For the year ended 31 December 2014
(all amounts are presented in HRK millions)

	Year ended	Year ended
Note	31 December 2014	31 December 2013
Profit/(loss) for the year	631	(1,633)
Adjustments for:		
Depreciation and amortisation	1,980	2,101
Income tax benefit recognised in income statement	(481)	(334)
Impairment charges (neto)	(7)	3,633
Gain on sale of property plant and equipment	-	(5)
Foreign exchange loss	192	12
Interest income, net	(105)	(62)
Other finance expense recognised in income statement	162	7
Increase in provisions	252	172
Decommissioning interests	87	80
Other non-cash items	63	2
	2,774	3,973
Movements in working capital		
Decrease/(increase) in inventories	766	(122)
Decrease/(increase) in receivables and prepayments	1,090	(787)
(Decrease)/increase in trade and other payables	(910)	1,395
Cash generated from operations	3,720	4,459
Taxes paid	(86)	(357)
Net cash inflow from operating activities	3,634	4,102
Cash flows used in investing activities		
Capital expenditures, exploration and development costs	(1,542)	(1,689)
Payment for intangible assets	(28)	(245)
Proceeds from sale of non-current assets	-	9
Aquisition of investments in subsidiaries, associates and other companies	-	(10)
Dividends received from companies classified as available- for-sale and from other companies	7	3
Payments received from subsidiaries	4	39
Interest received and other financial income	82	97
Investments and loans, net	54	14
Net cash used in investing activities	(1,423)	(1,782)

INA - INDUSTRIJA NAFTE, d.d.
 INA, d.d. Separate Statement of Cash Flows (continued)
 For the year ended 31 December 2014
 (all amounts are presented in HRK millions)

	Year ended	Year ended
Note	31 December 2014	31 December 2013
Cash flows from financing activities		
Additional long-term borrowings	2,202	6,160
Repayment of long-term borrowings	(3,564)	(9,798)
Additional short-term borrowings	14,767	15,060
Repayment of short-term borrowings	(15,368)	(13,240)
Dividends paid	-	(343)
Interest paid on long-term loans	(41)	(79)
Other long-term liabilities, net	(2)	(7)
Interest paid on short term loans and other interest charges	(131)	(88)
Net cash used in financing activities	(2,137)	(2,335)
Net increase/(decrease) in cash and cash equivalents		
At 1 January	74	(15)
Effect of foreign exchange rate changes	252	270
	1	(3)
At 31 December	327	252
26		

Signed on behalf of the Company on 18 March 2015 by:

András Huszár 
 Executive Director for Finance

Zoltán Sándor Áldos 
 President of the Management Board

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

1. GENERAL

History and incorporation

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

INA-Industrija nafte, d.d. Zagreb is a joint stock company owned by the Hungarian oil company MOL (49.08%), the Republic of Croatia (44.84%) and institutional and private investors (6.08%). On 30 January 2009 MOL and the Government of Croatia signed the Amendment to the Shareholders Agreement. Under the Amendment MOL delegates five out of the nine members in the Supervisory Board and three out of six members of the Management Board including the President.

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

The initial public offering of 17% of INA, d.d. shares was successfully launched in November 2006. From 1 December 2006 the shares were listed on the Zagreb Stock Exchange and the London Stock Exchange where the trading in global depository receipts (GDRs) started. Due to subsequent decrease in activity on the London Stock Exchange, GDRs have been cancelled on 2 September 2014. The initial offer of INA's shares had caused great interest of private and institutional investors in Croatia, and the demand was oversubscribed. In 2007 an additional 7% of shares were sold to employees and former employees.

The ownership structure* of the INA Group as of 31 December 2014 and 2013:

	31 December 2014		31 December 2013	
	Number of shares	Ownership in %	Number of shares	Ownership in %
Zagrebačka banka d.d./Unicreditbank Hungary Zrt, for MOL Nyrt, Hungary	4,908,207	49.08	4,908,207	49.08
Government of the Republic of Croatia	4,483,552	44.84	4,483,552	44.84
Institutional and private investors	608,241	6.08	608,241	6.08
	10,000,000	100	10,000,000	100

*Source: Central Depository & Clearing Company Inc.

1. GENERAL (CONTINUED)

Principal activities

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

- (i) exploration and production of oil and gas deposits, primarily onshore and offshore within Croatia; other licence interests are held in abroad; Angola and Egypt;
- (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 (Urini) and Sisak, and Zagreb lubricants plants;
- (iv) distribution of fuels and associated products through a chain of 442 retail outlets in operation as of 31 December 2014 (of which 391 in Croatia and 51 outside Croatia).
- (v) trading in petroleum products through a network of foreign subsidiaries and representative offices, principally in Ljubljana and Sarajevo; and
- (vi) service activities incidental to on-shore and off-shore oil extraction through its drilling and oilfield services subsidiary Crosco d.o.o.

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

The headquarters of the Group are located in Zagreb, Avenija V. Holjevca 10, Croatia. As at 31 December 2014 there were 12,503 persons employed at the Group (13,460 as at 31 December 2013). As at 31 December 2014 there were 8,150 persons employed at INA, d.d. (8,517 as at 31 December 2013).

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

Directors, Management and Supervisory Board

Supervisory Board since 18 December 2012 until 10 July 2014

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

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

1. GENERAL (CONTINUED)

Directors, Management and Supervisory Board (continued)

Supervisory Board since 10 July 2014

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

Management Board

Management Board since 9 June 2011 until 21 May 2014

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

Management Board since 22 May 2014

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

Executive Board

Executive Board appointed by the decision of the Management Board from 1 September 2012 until 31 August 2014

Želimir Šikonja	Executive Director of Exploration and Production
Artur Thernesz	Executive Director in charge of Refining and Marketing
Darko Markotić	Executive Director in charge of Retail
András Huszár	Executive Director in charge of Finance
Tvrtko Perković	Executive Director in charge of Corporate Centre
Tomislav Thür	Executive Director in charge of Corporate Affairs

INA - INDUSTRIJA NAFTE, d.d.

Notes to the financial statements (continued)

For the year ended 31 December 2014

(all amounts are presented in HRK millions)

1. GENERAL (CONTINUED)

Directors, Management and Supervisory Board (continued)

Executive Board appointed by the decision of the Management Board since 1 September 2014

Želimir Šikonja	Executive Director of Exploration and Production
Bengt Viktor Oldsberg	Executive Director in charge of Refining and Marketing
Darko Markotić	Executive Director in charge of Retail
András Huszár	Executive Director in charge of Finance
Tvrtko Perković	Executive Director in charge of Corporate Centre
Tomislav Thür	Executive Director in charge of Corporate Affairs

Secretary since 18 June 2008

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

2. ACCOUNTING POLICIES

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

Presentation of the financial statements

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

The Company's and the Group's financial statements are prepared in millions of HRK, which is the Company's functional currency.

Basis of accounting

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

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

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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

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

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

2. ACCOUNTING POLICIES (CONTINUED)

Adoption of new and revised International Financial Reporting Standards

Standards and Interpretations effective in the current period

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

- **Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosures of Interests in Other Entities and IAS 27 (revised in 2011) Separate Financial Statements**, adopted by the EU on 20 November 2013 (effective for annual periods beginning on or after 1 January 2014).
- **Amendments to IAS 32 Financial Instruments: presentation – Offsetting Financial Assets and Financial Liabilities**, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2014).
- **Amendments to IAS 36 Impairment of assets - Recoverable Amount Disclosures for Non-Financial Assets**, adopted by the EU on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014).
- **Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting**, adopted by the EU on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014).

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

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

- **IFRIC 21 Levies**, issued in May 2013, provides guidance on when to recognize a liability for a levy imposed by a government, adopted by EU 13 June 2014 (effective date in EU for annual periods beginning on or after 1 July 2014).
- **Amendments to IAS 19 Employee Benefits - Defined Benefit Plans: Employee Contributions**, adopted in EU 17 December 2014 (effective in EU for annual periods beginning on or after 1 February 2015).
- **Amendments to various standards Improvements to IFRSs (cycle 2010-2012)** resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording, adopted 12 December 2013 (amendments are to be applied for annual periods beginning on or after 1 February 2015 in EU).
- **Amendments to various standards Improvements to IFRSs (cycle 2011-2013)** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording, adopted in EU 18 December 2014 (amendments are to be applied for annual periods beginning on or after 1 January 2015 in EU).

2. ACCOUNTING POLICIES (CONTINUED)

Adoption of new and revised International Financial Reporting Standards (continued) Standards and Interpretations issued by IASB but not yet adopted by the EU

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

- **IFRS 9 *Financial Instruments***, as amended in 2010 (effective for annual periods beginning on or after 1 January 2018).
- **IFRS 14 *Regulatory Deferral Accounts***, issued in January 2014. IFRS 14 cannot be applied by entities that have already adopted IFRSs (effective date to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2016)
- **IFRS 15 *Revenue from Contracts with Customers***, issued in May 2014 provides a single, principles based five-step model to be applied to all contracts with customers, furthermore introduce a new disclosures about revenue (effective date to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2017)
- **Amendments to IFRS 11 *Joint Arrangements*** on accounting for acquisitions of interests in joint operations, as amended in May 2014. The amendments apply prospectively to acquisitions of interests in joint operations in which the activities of the joint operations constitute businesses, as defined in IFRS 3 (effective date for annual periods beginning on or after 1 January 2016).
- **Amends IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*** on clarification of Acceptable Methods of Depreciation and Amortization, issued in May 2014 (effective date for annual periods beginning on or after 1 January 2016).
- **Amendments to IAS 27 *Separate Financial Statements (as amended in 2011)*** reinstating the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements, issued in August 2014 (effective date for annual periods beginning on or after 1 January 2016)
- **Annual Improvements to IFRSs (cycle 2012-2014)** resulting from the amendments on standards IFRS 5 and IAS 19 issued in September 2014 (effective date for annual periods beginning on or after 1 January 2016)
- **Amendments to IFRS 10 and IAS 28**, regarding the sale or contribution of assets between an investor and its associate or joint venture issued in September 2014 (effective date for annual periods beginning on or after 1 January 2016)
- **Amendments to IFRS 10, IFRS 12 and IAS 28**, regarding the application of the consolidation exception, issued in December 2014 (effective date for annual periods beginning on or after 1 January 2016)

Management anticipates that the adoption of IFRS 9 *Financial instruments* will have impact on disclosure of financial instruments and no impact on measurement of financial instruments.

The new standards IFRS 15 *Revenue from Contracts with Customers* will have a significant impact on revenue recognition, so Company need to assess how financial reporting, information system and processes will be affected.

2. ACCOUNTING POLICIES (CONTINUED)

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

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

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

Basis of consolidated financial statements (INA Group)

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

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

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

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

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

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

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

2. ACCOUNTING POLICIES (CONTINUED)

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

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

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests.

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

Legal merger

In a case of legal merger pooling of interest method is applied, balances of company that is merged are carried at net book values to a Company which is legal successor and no restatements of prior periods are done.

Business combination

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

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

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

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

2. ACCOUNTING POLICIES (CONTINUED)

Business combination (continued)

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

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

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

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

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

Goodwill

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

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

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit.

2. ACCOUNTING POLICIES (CONTINUED)

Goodwill (continued)

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

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

Investments in associates and joint ventures

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

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

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

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

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

2. ACCOUNTING POLICIES (CONTINUED)

Investments in associates (continued)

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

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

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

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

Interests in joint operations

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

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

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

2. ACCOUNTING POLICIES (CONTINUED)

Interests in joint operations (continued)

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

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

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

Oil and gas properties

Exploration and appraisal costs

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

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

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

Fields under development

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

Depreciation

Capitalised exploration and development costs of producing 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. Group performed reserves determination in accordance with SPE PRMS (Society of Petroleum Engineers Petroleum Resources Management System) guidelines.

2. ACCOUNTING POLICIES (CONTINUED)

Intangible assets

Intangible assets acquired separately are capitalized at cost and from a business acquisition are capitalized at fair value as at the date of acquisition. Intangible assets are recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise; and the cost of the asset can be measured reliably.

Amortisation is charged on assets with a finite useful life over the best estimate of their useful lives using the straight line method, except intangible assets on oil and gas fields are charged with a unit of production method. The amortisation period and the amortisation method are reviewed annually at each financial year-end. Intangible assets, excluding development costs, created within the business are not capitalized and expenditure is charged against income in the year in which the expenditure is incurred. Intangible assets are tested for impairment annually either individually or at the cash generating unit level.

Research costs are expensed as incurred. Development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured.

Following the initial recognition of the development expenditure the cost model is applied requiring the asset to be carried at cost less any accumulated impairment losses. Costs in development stage cannot be amortized. The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use or more frequently when an indicator of impairment arises during the reporting year indicating that the carrying value may not be recoverable.

Property, plant and equipment

Property, plant and equipment are shown at historical cost or valuation less accumulated depreciation and any accumulated impairment loss, except for land, which is stated at cost less any accumulated impairment loss. The initial cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing an asset to its working condition and location for its intended use.

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

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

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

2. ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment

Depreciation, Depletion and Amortisation

Intangible assets and property, plant and equipment in use (excluding oil and gas properties) are depreciated on a straight-line basis on the following basis:

Software	5	years
Buildings	5 - 50	years
Refineries and chemicals manufacturing plants	3 - 15	years
Petrol service stations	30	years
Telecommunication and office equipment	2 - 10	years

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

Impairment of tangible and intangible assets other than goodwill

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

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

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

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

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

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 fulfillment of the arrangement depends on the use of a specific asset or conveys the right to use the asset, it is deemed to contain a lease element and are recorded accordingly.

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

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

Receivables from customers

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

Accrued revenues are recorded at the end of reporting period for delivered goods or services if they have not been invoiced yet.

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

- estimate of recoverability of accounts receivable with individual approach to the Company's strategic customers;
- impairment of other short-term receivables that exceed 60 days from the maturity date.

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

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

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 approximately 96.5% of future average sales price, which approximates the net recoverable amount.
- Semi-finished products are measured using a calculation method, by which they are impaired to the extent that finished products on the basis of actual inventories at the period-end are impaired i.e. when the calculation shows that their net realisable value may not be recovered, by applying the impairment percentage to each individual semi-finished product on stock at the period-end.
- Imported natural gas held in underground storage is valued at the lower of cost, based on the price of imported gas at year-end including transport costs, and weighted average sales price based on year-end prices.
- Domestic natural gas held in underground storage is valued at the lower of weighted average sales price and cost.
- Other inventories, which comprise mainly spare parts, materials and supplies, are valued at the lower of cost or valuation and net realisable value.

Cash and cash equivalents

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

Borrowing costs

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

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. Used capitalisation rate for 2014 was 2.06% and for 2013 was 2.68%.

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

Foreign currencies

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

In preparing the financial statements of the individual Group entities, transactions in currencies other than the entity's functional currency (foreign currencies) are translated to the functional currency of entity at the rates of exchange prevailing on the dates of the transactions.

2. ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (continued)

At each statement of financial position date, monetary items denominated in foreign currencies are retranslated to the functional currency of the entity at the rates prevailing on the statement of financial position date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

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

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

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

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

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

Retirement Benefit and Jubilee Costs

For defined benefit plans for retirement and jubilee awards, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each annual reporting period.

2. ACCOUNTING POLICIES (CONTINUED)

Retirement Benefit and Jubilee Costs (continued)

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

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

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

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

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

Taxation

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

Current tax

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

Deferred tax

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

2. ACCOUNTING POLICIES (CONTINUED)

Taxation (continued)

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

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

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

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

Current and deferred tax for the period

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

Financial assets

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

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

Effective interest method

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

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

2. ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

AFS financial assets

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

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

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

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Attributable transaction costs are recognised in profit or loss as incurred. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as finance costs (negative net changes in fair value) or finance income (positive net changes in fair value) in the statement of profit or loss.

Loans and receivables

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

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each statement of financial position date. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account.

2. ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

Impairment of financial assets (continued)

When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

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

In respect of AFS equity securities, any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve.

Investments

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

Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

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

Financial liabilities

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

Financial liabilities at FVTPL

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

2. ACCOUNTING POLICIES (CONTINUED)

Financial liabilities and equity instruments (continued)

Financial liabilities at FVTPL (continued)

A financial liability is classified as held for trading if:

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

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

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

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

Other financial liabilities

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

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

Derecognition of financial liabilities

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

2. ACCOUNTING POLICIES (CONTINUED)

Financial liabilities and equity instruments (continued)

Derivative financial instruments

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

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

Hedging

The Group designates certain hedging instruments as fair value hedges.

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

Fair value hedges

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

For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged, the derivative is remeasured at fair value and gains and losses from both are taken to the statement of profit or loss.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through the statement of profit or loss over the remaining term to maturity. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortised to the statement of profit or loss.

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

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

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

2. ACCOUNTING POLICIES (CONTINUED)

Financial liabilities and equity instruments (continued)

Embedded derivatives

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

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

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

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

Segmental information

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

Provisions for decommissioning and other obligations

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

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

2. ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

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

Sale of goods

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

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

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

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

Rendering of services

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

- installation fees are recognised by reference to the stage of completion of the installation, determined as the proportion of the total time expected to install that has elapsed at the statement of financial position date;
- servicing fees included in the price of products sold are recognised by reference to the proportion of the total cost of providing the servicing for the product sold and
- revenue from time and material contracts is recognised at the contractual rates as labour hours are delivered and direct expenses are incurred.

Dividend and interest revenue

Dividend revenue from investments is recognised when the shareholder's right to receive payment has been established.

Interest revenue is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Critical judgements in applying accounting policies

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

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

Consequences of certain legal actions

INA Group members are involved in number of litigations arisen from the regular course of business. If there is a present obligation as a result of a past event (taking into account all available evidence, including the opinion of law experts) for which is probable that outflow of resources will be required to settle the obligation and if a reliable estimate can be made of the amount of the obligation, provisions are recorded (see note 32).

Carrying value of non-current assets, including goodwill

The impairment calculation requires the estimate of the value in use of the cash generating units. Value in use is measured using the discounted cash flow projections. The most significant variables in determining cash flows are discount rates, period of cash flow projections, as well as assumptions and judgments used in determining cash receipts and expenditure. The impairment of assets based on IAS 36 reported in the consolidated statement of profit or loss amounted to HRK 1,784 million in 2014 (2013: HRK 2,074 million).

Carrying value of goodwill

There was no impairment of goodwill in 2014 and 2013 (see note 16). The carrying amount of goodwill amounted to HRK 183 million as of 31 December 2014 and 2013 respectively (see note 16).

Carrying value of intangible exploration and appraisal assets

The carrying amount of intangible exploration and appraisal assets amounted to HRK 302 million as of 31 December 2014 and HRK 378 million 2013 (see note 14). In INA Group the impairment of intangible exploration and appraisal assets reported in amount of HRK 107 million in 2014 (2013: HRK 343 million) (see note 14).

Carrying value of production oil and gas assets

The carrying amount of production oil and gas assets amounted to HRK 4,332 million as of 31 December 2014 and HRK 5,414 million 2013 (see note 15). In INA Group the impairment reported in amount of HRK 1,380 million in 2014 while in 2013 the reversal of impairment was reported in amount to HRK 1,340 million. (see note 15).

Carrying value of property, plant and equipment in refineries and marketing

The carrying amount of property, plant and equipment in refineries and marketing amounted to HRK 5,073 million as of 31 December 2014 and HRK 5,578 million in 2013. As a consequence of the unfavourable economic environment, the impairment of refineries reported in amount of HRK 385 million in 2014 and HRK 679 million in 2013. (see note 15).

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Critical judgements in applying accounting policies (continued)

Key assumptions used

Refining and Marketing BD

The calculation of value in use for the refinery plant CGU is most sensitive to the following assumptions:

- Crack spreads
- Discount rates
- Crude oil prices
- USD foreign exchange rate

Change in the estimates of these premises would influence the amount of impairment recognized in relation to Refining and Marketing BD.

Forecast quotation prices and exchange rates are based on management's estimates and available market data. Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rates are based on the specific circumstances of the Group and its operating segments and are derived from its WACC, with appropriate adjustments made to reflect the risks specific to the CGU.

Upstream BD

The calculation of value in use for the CGUs in Upstream BD is most sensitive to the following assumptions:

- Discount rates
- Crude oil prices

Forecast quotation prices are based on management's estimates and available market data. Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rates are based on the specific circumstances of the Group and its operating segments and are derived from its WACC, with appropriate adjustments made to reflect the risks specific to the CGU.

With regard to the assessment of impairment test on oil and gas properties, management believes that there are no reasonably possible changes in any of the above key assumptions that would cause the carrying value of the oil and gas properties to materially exceed their recoverable amount.

Investments in Syria

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

Current situation

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Critical judgements in applying accounting policies (continued)

Investments in Syria

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

Impairment of non-current assets and current assets in Syria

Consequent to the political turmoil started in 2011 and the sanctions posed by US and EU on Syria, treatment of revenues from operations therein requires judgment. Having assessed the probability of receiving economic benefits from sales activities in Group's Syrian operations, including counterparty risk associated with GPC, the Syrian National Oil Company, the management decided that criteria set out in IAS 18 – Revenue Recognition were not met from early 2011. Therefore, beginning from this date, revenue was recognized only if cash has been received from GPC. Until 26 February 2012 INA regularly issued invoices, the last invoice being issued for February 2012, however. August 2011 was the last month for which INA invoices were paid in full. INA's unrecorded revenues until February 2013 accumulate to approximately USD 372.5 million.

On 22 February 2012 Croatia adopted EU/UN sanctions towards Syrian Arab Republic, hence INA d.d. declared Force Majeure as from 26 February 2012. By declaring Force Majeure, INA, d.d. suspended all its petroleum activities in Hayan and Aphamia blocks as per Production Sharing Agreement (Hayan/Aphamia) and recalled all its local and expatriate employees. Since the production in Hayan Block is still ongoing, the Group has not recognized production volumes since the announcement of Force Majeure.

Due to inadequate and still continuous operating condition and lack of regular maintenance of the assets, the physical deterioration of surface facilities needs to be reflected in depreciation charge, which - in the absence of parameters needed for unit-of-production depreciation calculation method due to Force Majeure is calculated with straight-line depreciation method, applied starting from 1 January 2013 calculated based on an average residual useful life of 3.5 years. Depreciation charge for 2014 was recognized in amount of HRK 306 million (2013: HRK 547 million).

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

The most significant variables in determining cash flows are discount rates, the period for which cash flow projections are made, probabilities relating to different scenarios as well as the assumptions and estimates used to determine the amount and timing of cash inflows and outflows, including crude oil and natural gas prices (considering the price formulae set out in the respective Production Sharing Agreement), the incremental rebuilding costs, operating expenses and future annual production volumes.

While such cash flows reflect the management's best estimate for the future, these estimates are exposed to an increased uncertainty as a result of the political, security and economic conditions in Syria. The possible impacts of multiple probability weighted settlement scenarios on Group's operation in Syria representing:

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Critical judgements in applying accounting policies (continued)

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

- a) Destruction: the properties are subject to physical damage as a result of targeted or accidental attacks. In case of only partial damage, return to operation is still possible, while in case of full damage of properties, no return is assumed.
- b) Return to operation: after crisis settlements and full or partial removals of sanctions the Group expects to return to operations within 3 to 10 year.
- c) No return: the Group is disabled returning at all and the assets are lost.

For estimation of future production volumes the proved developed reserves derived from business plans prior to Force Majeure were used. Asset-specific discount rates were derived from the USD-based upstream weighted average cost of capital and are adjusted for project-specific risks, as applicable. The discount rate applied was 17.3% (see note 15). Based on multiple-scenario discounted cash flow calculations the Group has recorded impairment in amount of HRK 1,507 million on tangible assets including asset-under-construction on Hayan Block. Additionally, impairment in amount of HRK 55 million was recorded on other current assets related to Hayan and Aphia Blocks. Also Croscos impaired assets and inventories in Syria in the amount of HRK 33 million.

Political developments in Egypt

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

INA Group has a share of production on Ras Qattara and West Abu Gharadig Concessions operated by IEOC, on the North Bahariya Concession operated by Sahara Oil and Gas, and on East Yidma Concession operated by INA. Concession Agreements for petroleum exploration and exploitation rights were contracted between The Arab Republic of Egypt, the Egyptian national petroleum company EGPC and partners. Produced oil is sold to EGPC as per the contract.

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

Depending on the overall political situation in Egypt, adverse effects are possible, such as on the net investment income of the INA Group in Egypt, which could then have an adverse impact on the future operating results of the INA Group. Currently the company records 100% impairment on the receivables from EGPC overdue by more than 60 days.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with International Reporting Financial Standards, as adopted by EU requires 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 estimates in applying accounting policies

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

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

Management makes estimates of future expenditure in connection with environmental and decommissioning obligations using prices by reference to prior similar activities, as well as other assumptions. Furthermore, the time determined for the cash flows reflects the current estimates of priorities, technical equipment requirements and urgency of the obligations. The obligation with respect to the decommission provision for oil and gas properties amounted to HRK 2,253 million as at 31 December 2014 (31 December 2013: HRK 2,360 million) (see note 32).

The level of provisioning for environmental obligations

The applicable regulations, specifically the environmental protection legislation, do not specify the exact scope of activities or technology to be applied. Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Generally, the timing of these provisions coincides with the commitment to a formal plan of action or, if earlier, on divestment or on closure of inactive sites. In determining the level of provisions for environmental obligations and decommissioning of oil and gas properties, the management relies on prior experience and their own interpretation of the related legislation. Where the liability will not be settled for a number of years, the amount recognized is the present value of the estimated future expenditure. At 31 December 2014 INA Group recognized environmental provision in amount HRK 309 million (2013: HRK 301 million) (see note 32), which covers investigation to determine the extent of contamination at specific site, treatment of accumulated waste generated by former activity, preliminary site investigation with corresponding laboratory analyses, soil excavation and replacement during the reconstruction of filling stations. It does not cover the cost of remediation in lack of detailed National regulations.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Critical estimates in applying accounting policies (continued)

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

A deferred tax asset is recognized for unused tax losses only to the extent that it is probable that the related tax benefit will be realised against future taxable profits. Determining the amount of deferred taxes that can be recognised requires a significant level of judgement, which is based on the probable quantification of the time and level of future taxable profits, together with the future tax planning strategy. At 31 December 2014 the carrying amount of deferred tax assets of the INA Group amounted to HRK 1,742 million (2013: HRK 1,127 million) and deferred tax liabilities amounted HRK 9 million (2013: HRK 7 million), while the carrying amount of deferred tax assets of INA, d.d. amounted to HRK 1,702 million, (31 December 2013: HRK 1,076 million respectively) (see note 12).

Actuarial estimates used in determining the retirement bonuses

The cost of defined benefits is determined using actuarial estimates. Actuarial estimates involve assumptions of discount rates, future salary increases and the mortality or fluctuation rates. Because of the long-term nature of those plans, there is uncertainty surrounding those estimates. Provisions for retirement bonuses and jubilee awards for INA Group amounted to HRK 184 million as at 31 December 2014 (31 December 2013: HRK 146 million), and INA, d.d. amounted to HRK 136 million as at 31 December 2014 (31 December 2013: HRK 105 million) (see note 33).

Useful life of the assets

The INA Group and INA, d.d. review the estimated useful lives of property, plant and equipment at the end of each reporting period. Estimation of useful life is considered to be a significant accounting estimation that effects on the change in depreciation rates. The new estimation of asset useful life at the end of 2014 had no significant changes compared to the previous estimate.

Hydrocarbonate reserves

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Critical estimates in applying accounting policies (continued)

Hydrocarbonate reserves (continued)

The Group estimates and reports hydrocarbon reserves in line with the principles contained in the SPE Petroleum Resources Management Reporting System (PRMS) framework. As the economic assumptions use may change and as additional geological information is obtained during the operation of a field, estimates of recoverable reserves may change. Such changes may impact the Group's reported financial position and results, which include:

- The carrying value of exploration and evaluation assets; oil and gas properties; property, plant and equipment; and goodwill may be affected due to changes in estimated future cash flows
- Depreciation and amortization charges in the statement of profit or loss and other comprehensive income may change where such charges are determined using the Units of Production (UOP) method, or where the useful life of the related assets change
- Provisions for decommissioning may require revision — where changes to the reserve estimates affect expectations about when such activities will occur and the associated cost of these activities
- The recognition and carrying value of deferred tax assets may change due to changes in the judgments regarding the existence of such assets and in estimates of the likely recovery of such assets

Reclassification of profit and loss account and statement of financial position

In 2014 in order to ensure consistency of presentation with current year the Company and the Group reclassified expense of mining fee from service cost to other material costs, interest expenses regarding tax inspection from other material cost to financial cost, decommissioning depreciation reversal from operating income to other material cost, loans fee charges from service cost to finance cost, value adjustment of sold assets from impairment charges to other operative income. The effect of reclassification of profit and loss account is as follows:

INA Group

	2013 before restatement	Reclassification of decommissioning depreciation reversal	Loan fees	Netting off PPE disposal	Interest - tax resolution	Mining rent restatement	2013 restated
Other operating income	507	(8)	-	(11)	-	-	488
Other material costs	(1,622)	8	-	-	-	(369)	(1,983)
Service costs	(1,249)	-	17	-	48	369	(815)
Impairment charges, net	(2,780)	-	-	11	-	-	(2,769)
Finance cost	(459)	-	(17)	-	(48)	-	(524)
Total	(5,603)						(5,603)

INA - INDUSTRIJA NAFTE, d.d.

Notes to the financial statements (continued)

For the year ended 31 December 2014

(all amounts are presented in HRK millions)

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Critical estimates in applying accounting policies (continued)

Reclassification of profit and loss account and statement of financial position (continued)

INA, d.d.

	2013 before restatement	Reclassification of decommissioning depreciation reversal	Netting off PPE disposal	Capitalised value of own performance	Interest - tax resolution	Mining rent restatement	2013 restated
Other operating income	496	(8)	(4)	(4)	-	-	480
Capitalised value of own performance	-	-	-	4	-	-	4
Other material costs	(1,394)	8	-	-	-	(369)	(1,755)
Service costs	(1,074)	-	-	-	48	369	(657)
Impairment charges, net	(3,637)	-	4	-	-	-	(3,633)
Finance cost	(547)	-	-	-	(48)	-	(595)
Total	(6,156)	-	-	-	-	-	(6,156)

The effect of reclassification on statement of financial position is as follows:

INA Group

	2013 before restatement	Mining rent restatement	2013 restated
Effect of taxes and contributions	749	(29)	720
Effect of other current liabilities	661	29	690
Total	1,410	-	1,410

INA, d.d.

	2013 before restatement	Mining rent restatement	2013 restated
Effect of taxes and contributions	590	(29)	561
Effect of other current liabilities	386	29	415
Total	976	-	976

4. SEGMENT INFORMATION

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

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

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

Starting from 1 January 2013, BD Retail, which includes selling of fuels and commercial goods in retail stations and logistics, was for segment reporting purposes merged to BD Refining and Marketing. Starting from 1 January 2014 due to organizational change Croscos Group is no longer part of BD Upstream and it is consolidated in BD Corporate and other. Comparative data was restated to be comparable with current year and to reflect change.

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

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

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

4. SEGMENT INFORMATION (CONTINUED)**BY BUSINESS****INA Group**

	Exploration and production	Refining and marketing	Corporate and other	intersegment transfers and consolidation adjustments	Total
2014					
Sales to external customers	4,039	18,187	1,533	-	23,759
Inter-segment sales	2,693	35	1,132	(3,860)	-
Total revenue	6,732	18,222	2,665	(3,860)	23,759
Operating expenses, net of other operating income	(5,771)	(20,711)	(2,849)	3,860	(25,471)
Profit/(loss) from operations	961	(2,489)	(184)	-	(1,712)
Net finance loss					(622)
Loss before tax					(2,334)
Income tax benefit					437
(Loss)/profit for the year					(1,897)

	Exploration and production	Refining and marketing	Corporate and other	Intersegment transfers and consolidation adjustments	Total
2013					
Sales to external customers	6,098	20,084	1,262	-	27,444
Inter-segment sales	3,227	53	873	(4,153)	-
Total revenue	9,325	20,137	2,135	(4,153)	27,444
Operating expenses, net of other operating income	(7,836)	(22,205)	(2,694)	3,786	(28,949)
Profit/(loss) from operations	1,489	(2,068)	(559)	(367)	(1,505)
Net finance loss					(311)
Loss before tax					(1,816)
Income tax expense					308
(Loss)/profit for the year					(1,508)

INA - INDUSTRIJA NAFTE, d.d.
Notes to the financial statements (continued)
For the year ended 31 December 2014
(all amounts are presented in HRK millions)

4. SEGMENT INFORMATION (CONTINUED)

BY BUSINESS (continued)

INA Group

31 December 2014	Exploration and production	Refining and marketing	Corporate and other	Intersegment transfers and consolidation adjustments	Total
Assets and liabilities					
Property, plant and equipment	7,270	5,107	1,774	(113)	14,038
Intangible assets	318	19	120	-	457
	22	-	-	-	22
Inventories	152	1,844	262	(334)	1,924
Trade receivables, net	630	983	701	(316)	1,998
Not allocated assets					3,776
Total assets					22,215
Trade payables	479	1,123	427	(316)	1,713
Not allocated liabilities					8,842
Total liabilities					10,555
Other segment information					
Property, plant and equipment	1,039	467	143	-	1,649
Intangible assets	8	3	29	-	40
Capital expenditure:	1,047	470	172	-	1,689
Depreciation and amortisation	1,344	570	218	-	2,132
Impairment losses PP&E, net recognized in profit and loss	1,380	387	17	-	1,784
Other impairment losses, net recognized in profit and loss	99	180	10	(21)	268
Total impairment charges, net *	1,479	567	27	(21)	2,052

* See note 8.

INA - INDUSTRIJA NAFTE, d.d.
Notes to the financial statements (continued)
For the year ended 31 December 2014
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4. SEGMENT INFORMATION (CONTINUED)

BY BUSINESS (continued)

INA Group

31 December 2013	Exploration and production	Refining and marketing	Corporate and other	Intersegment transfers and consolidation adjustments	Total
Assets and liabilities					
Property, plant and equipment	8,581	5,589	1,865	(56)	15,979
Intangible assets	389	16	119	-	524
Investments in associates	22	-	-	-	22
Inventories	509	2,779	305	(374)	3,219
Trade receivables, net	936	1,432	585	(389)	2,564
Not allocated assets					3,601
Total assets					25,909
Trade payables	873	1,949	408	(389)	2,841
Not allocated liabilities					10,193
Total liabilities					13,034
Other segment information					
Property, plant and equipment	1,062	540	162	-	1,764
Intangible assets	194	5	48	-	247
Capital expenditure:	1,256	545	210	-	2,011
Depreciation and amortisation	1,400	645	216	-	2,261
Impairment losses/(income) PP&E, net recognized in profit and loss	1,340	734	-	-	2,074
Other impairment losses, net recognized in profit and loss	528	167	33	(33)	695
Total impairment charges/(income), net *	1,868	901	33	(33)	2,769

* See note 8.

4. SEGMENT INFORMATION (CONTINUED)

BY GEOGRAPHICAL

INA Group

	Republic of Croatia	Syria	Other countries	Total
31 December 2014				
Property, plant and equipment	12,651	620	767	14,038
Intangible assets	318	118	21	457
Investments in associates	22	-	-	22
Inventories	1,787	3	134	1,924
Trade receivables, net	1,154	-	844	1,998
Not allocated assets				3,776
Total assets				22,215
Other segment information				
Property, plant and equipment	1,450	-	199	1,649
Intangible assets	43	-	(3)	40
Capital expenditure:	1,493	-	196	1,689

INA Group

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

4. SEGMENT INFORMATION (CONTINUED)

INA Group

	<i>Revenues from external customers</i>	
	2014	2013
Republic of Croatia	14,187	17,531
Switzerland	1,618	2,180
Bosnia and Hercegovina	2,777	2,936
Italy	732	446
Other countries	4,445	4,351
	23,759	27,444

INA, d.d.

	<i>Revenues from external customers</i>	
	2014	2013
Republic of Croatia	13,394	15,558
Switzerland	1,537	2,180
Bosnia and Hercegovina	2,450	47
United Kingdom	500	414
Other countries	3,198	5,683
	21,079	23,882

Information about major customers

No single customer contributed 10% or more to the Group's revenue in either 2014 or 2013.

5. OTHER OPERATING INCOME

	INA Group		INA, d.d.	
	2014	2013	2014	2013
Income from rental activities	52	50	71	59
Surpluses	31	31	36	35
Income from collected damage claims	30	67	17	53
Additional discounted from contracts	26	13	26	13
Income from sale of assets	24	12	16	25
Penalty interest from customers	16	22	123	196
Commission Fee	13	11	12	11
Income from contractual penalties	4	180	2	35
Other	81	102	58	53
Total	277	488	361	480

6. DEPRECIATION AND AMORTISATION

	INA Group		INA, d.d.	
	2014	2013	2014	2013
Depreciation of property, plant and equipment (note 15 b)	2,097	2,231	1,947	2,074
Amortisation of intangible assets (note 14)	35	30	33	27
	2,132	2,261	1,980	2,101

7. STAFF COSTS

	INA Group		INA, d.d.	
	2014	2013	2014	2013
Net payroll	1,250	1,272	766	786
Tax and contributions for pensions and health insurance	861	846	557	553
Other payroll related costs	356	297	165	133
	2,467	2,415	1,488	1,472

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

	INA Group		INA, d.d.	
	2014	2013	2014	2013
	Number of employees	Number of employees	Number of employees	Number of employees
Exploration and production	1,465	1,500	1,464	1,469
Refining and marketing	6,518	6,579	5,685	5,721
Corporate function	4,520	5,381	1,001	1,327
	12,503	13,460	8,150	8,517

8. IMPAIRMENT CHARGES (NET)

	INA Group		INA, d.d.	
	2014	2013	2014	2013
Impairment of PP&E and intangible assets, net*	1,784	2,078	1,765	2,072
Write-off PP&E and intangibles, net	118	376	117	369
Impairment of inventory, net	89	39	119	67
Impairment of trade receivables, net	(4)	208	(2,067)	1,064
Other impairment, net	65	68	59	61
	2,052	2,769	(7)	3,633

* See note 15.

Amount of HRK 2,067 million of revenues from trade receivables in 2014 relates mostly to company Prirodni plin d.o.o. (HRK 2,075 million) and consists of collected impaired receivables from prior year (HRK 1,739 million) and remaining part of impaired receivable recognized as revenue (HRK 336 million) due to legal merger of Prirodni plin d.o.o. to INA, d.d.

9. PROVISIONS FOR CHARGES AND RISKS (NET)

	INA Grupa		INA, d.d.	
	2014	2013	2014	2013
Provision for incentives	46	20	45	30
Provision for retirement and jubilee benefits	30	18	23	18
Provision for legal claims	28	34	34	39
Provision/(income from released provision) for unused holidays	24	(6)	-	(3)
Provision for emission rights	9	10	9	10
Provision/(income from released provision) for employees benefits	3	42	(1)	28
(Income from released provision)/provision for contractual liabilities for taxation	(88)	110	(79)	53
Income from released provision for environmental liabilities	(10)	(26)	(10)	(25)
(Income from released provision)/provision for Angolan taxes and other provisions	66	(1)	58	(4)
	108	201	79	146

10. FINANCE INCOME

	INA Group		INA, d.d.	
	2014	2013	2014	2013
Foreign exchange gains from trade receivables and payables	108	24	57	6
Foreign exchange gains from loans and cash	74	102	69	74
Interest received and other financial income	19	21	644	246
Positive fair value changes of embedded derivatives	26	63	26	44
Income from dividends	7	3	7	3
Dividend received from subsidiaries	-	-	4	39
	234	213	807	412

11. FINANCE COSTS

	INA Group		INA, d.d.	
	2014	2013	2014	2013
Foreign exchange losses from loans and cash	322	67	247	62
Other interest expense	150	137	145	132
Interest expense regarding tax resolutions	108	48	108	48
Other financial costs	98	114	105	232
Foreign exchange losses from trade receivables and payables	96	59	69	31
Interest for long-term loans	55	102	51	94
Negative fair value changes of embedded derivatives	37	11	50	11
Capitalized borrowing costs	(10)	(14)	(10)	(15)
	856	524	765	595

12. TAXATION

	INA Group		INA, d.d.	
	2014	2013	2014	2013
Current tax expense	204	263	174	243
Deferred tax (income)/charge related to origination and reversal of temporary differences	(641)	(571)	(655)	(577)
Income tax (benefit)/expense	(437)	(308)	(481)	(334)

Tax on profit generated in Croatia is determined by applying the rate of 20 percent, both in 2014 and 2013, on pre-tax profit for the year.

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

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

	INA Group		INA, d.d.	
	2014	2013	2014	2013
(Loss)/profit before tax	(2,334)	(1,816)	150	(1,967)
(Benefit)/expense tax calculated at 20%	(467)	(363)	30	(393)
Tax loss previously not recognized	(432)	(52)	(533)	(5)
Effect of different tax rates of entities operating in other jurisdictions	17	2	32	3
Tax effect of permanent differences	131	(135)	(315)	(179)
Tax effect of previous years	314	240	305	240
Income tax (benefit)	(437)	(308)	(481)	(334)

In 2014, INA, d.d. recognised HRK 100 million tax effects of prior year in respect of Tax finding of Ministry of finance after tax inspection for year 2010 and 2011.

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

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

INA - INDUSTRIJA NAFTE, d.d.

Notes to the financial statements (continued)

For the year ended 31 December 2014

(all amounts are presented in HRK millions)

12. TAXATION (CONTINUED)

INA Group	Impairment of current assets	Impairment of tangible and intangible assets	Reversal of depreciation for impaired asset	Other provisions	Impairment of financial investments	Subsequent tax liability from tax inspection	Tax losses	Total
Balance at 1 January 2013	40	390	(127)	121	98	-	22	544
Charge directly to equity	-	-	-	3	2	-	-	5
Reversal of temporary differences	(5)	(11)	(26)	(18)	(4)	-	(10)	(74)
Origination of temporary differences	1	415	-	45	35	-	149	645
Balance at 31 December 2013	36	794	(153)	151	131	-	161	1,120
Charge directly to equity	-	-	-	-	(28)	-	-	(28)
Reversal of temporary differences	(2)	(18)	(90)	(31)	-	-	(172)	(313)
Origination of temporary differences	7	386	-	81	8	45	427	954
Balance at 31 December 2014	41	1,162	(243)	201	111	45	416	1,733

INA, d.d.	Impairment of current assets	Impairment of tangible and intangible assets	Reversal of depreciation for impaired asset	Other provisions	Impairment of financial investments	Subsequent tax liability from tax inspection	Tax losses	Total
Balance at 1 January 2013	29	395	(127)	113	84	-	-	494
Charge directly to equity	-	-	-	2	2	-	-	4
Reversal of temporary differences	(4)	(10)	(26)	(13)	(4)	-	-	(57)
Origination of temporary differences	1	415	-	34	36	-	149	635
Balance at 31 December 2013	26	800	(153)	136	118	-	149	1,076
Charge directly to equity	-	-	-	-	(29)	-	-	(29)
Reversal of temporary differences	(1)	(14)	(90)	(28)	-	-	(149)	(282)
Origination of temporary differences	3	382	-	73	8	45	426	937
Balance at 31 December 2014	28	1,168	(243)	181	97	45	426	1,702

INA - Industrija Nafta, d.d.

INA - INDUSTRIJA NAFTE, d.d.
Notes to the financial statements (continued)
For the year ended 31 December 2014
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13. EARNINGS PER SHARE

	INA Group	
	31 December 2014	31 December 2013
Basic and diluted (loss)/earnings per share (in HRK)	(189.7)	(150.8)

Earnings	INA Group	
	31 December 2014	31 December 2013
(Loss)/earnings used in the calculation of total basic earnings per share	(1,897)	(1,508)
	(1,897)	(1,508)

Number of shares	INA Group	
	31 December 2014	31 December 2013
	Number of shares	Number of shares
Weighted average number of ordinary shares for the purposes of basic earnings per share (in millions)	10	10

In 2014, there was no dividend approved.

On 17 July 2013, approved dividend amounted to 34.36 kunas per share (total dividend HRK 343 million).

INA - INDUSTRIJA NAFTE, d.d.

Notes to the financial statements (continued)

For the year ended 31 December 2014

(all amounts are presented in HRK millions)

14. INTANGIBLE ASSETS

INA Group	Oil and gas properties	Software	Patents, Licences and other rights	Intangible assets under construction	Total
Balance at 1 January 2013	558	69	15	34	676
Additions	186	-	-	61	247
Amortisation	-	(25)	(5)	-	(30)
Foreing exchange translation of foreign operations	(23)	-	-	-	(23)
Impairment	(343)	(1)	-	-	(344)
Disposals	-	-	(4)	-	(4)
Transfer	-	51	3	(54)	-
Transfer to property, plant and equipment	-	5	-	(3)	2
Balance at 31 December 2013	378	99	9	38	524
Additions	-	-	-	40	40
Amortisation	-	(32)	(3)	-	(35)
Foreing exchange translation of foreign operations	31	-	-	-	31
Impairment	(107)	-	-	-	(107)
Disposals	-	-	-	-	-
Transfer	-	49	1	(50)	-
Transfer to property, plant and equipment	-	3	1	(4)	-
Other	-	-	4	-	4
Balance at 31 December 2014	302	119	12	24	457

INA - INDUSTRIJA NAFTE, d.d.

Notes to the financial statements (continued)

For the year ended 31 December 2014

(all amounts are presented in HRK millions)

14. INTANGIBLE ASSETS (CONTINUED)

INA, d.d.	Oil and gas properties	Software	Patents, Licences and other rights	Intangible assets under construction	Total
Balance at 1 January 2013	558	26	8	79	671
Additions	186	-	-	57	243
Amortisation	-	(24)	(3)	-	(27)
Foreing exchange translation of foreign operations	(23)	-	-	-	(23)
Impairment	(343)	(1)	-	-	(344)
Transfer	-	50	-	(50)	-
Transfer to property, plant and equipment	-	5	-	(3)	2
Balance at 31 December 2013	378	56	5	83	522
Additions	(4)	-	-	43	39
Amortisation	-	(31)	(2)	-	(33)
Foreing exchange translation of foreign operations	31	-	-	-	31
Impairment	(107)	-	-	-	(107)
Transfer	-	48	1	(49)	-
Reclassification between categories	1	43	2	(46)	-
Transfer to property, plant and equipment	-	3	-	(3)	-
Other	-	-	3	-	3
Balance at 31 December 2014	299	119	9	28	455

At 31 December 2014 INA Group impairment of intangible assets amounts to HRK 107 million, consisting of impairment of dry well costs: Northern Adriatic (IKA SW2, HRK 98 million), Egypt (Disouq HRK 8 million), Syria (Hayan HRK 1 million).

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

INA - INDUSTRIJA NAFTE, d.d.
Notes to the financial statements (continued)
For the year ended 31 December 2014
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15. PROPERTY, PLANT AND EQUIPMENT

a) By business segment

INA Group

	Oil and gas exploration and production	Refining and marketing	Other	Total
Balance at 1 January 2013				
Cost	34,896	19,516	6,927	61,339
Accumulated depreciation	24,510	13,059	5,054	42,623
Net book value	10,386	6,457	1,873	18,716
Balance at 31 December 2013				
Cost	35,807	19,940	6,987	62,734
Accumulated depreciation	27,216	14,362	5,177	46,755
Net book value	8,591	5,578	1,810	15,979
Balance at 31 December 2014				
Cost	37,062	20,335	7,005	64,402
Accumulated depreciation	29,889	15,262	5,213	50,364
Net book value	7,173	5,073	1,792	14,038

INA, d.d.

	Oil and gas exploration and production	Refining and marketing	Other	Total
Balance at 1 January 2013				
Cost	34,797	18,873	1,762	55,432
Accumulated depreciation	24,440	12,582	1,347	38,369
Net book value	10,357	6,291	415	17,063
Balance at 31 December 2013				
Cost	35,640	19,320	1,867	56,827
Accumulated depreciation	27,144	13,896	1,447	42,487
Net book value	8,496	5,424	420	14,340
Balance at 31 December 2014				
Cost	37,041	19,781	1,810	58,632
Accumulated depreciation	29,828	14,825	1,415	46,068
Net book value	7,213	4,956	395	12,564

INA - INDUSTRIJA NAFTE, d.d.
Notes to the financial statements (continued)
For the year ended 31 December 2014
(all amounts are presented in HRK million.)

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

b) By asset type

INA Group

Cost	Oil and gas properties	Land and buildings	Plant and machinery	Vehicles and office equipment	Collective Consumption assets	Assets under construction	Total
Balance at 1 January 2013	30,905	11,081	14,996	1,767	41	2,549	61,339
Additions	-	-	-	-	-	1,764	1,764
Change in capitalised decommissioning costs	(52)	-	-	-	-	-	(52)
Foreign exchange translation of foreign operations	(164)	-	-	-	-	-	(164)
Acquisition of subsidiary Croplin	-	49	-	-	-	-	49
Assets put in use	262	583	(108)	164	-	(901)	-
Disposals	(1)	(19)	(121)	(23)	(2)	(40)	(206)
Transfer from intangible assets	-	-	3	-	-	(5)	(2)
Transfer	-	(10)	96	(86)	-	-	-
Other movements	-	13	(90)	51	-	32	6
Balance at 31 December 2013	30,950	11,697	14,776	1,873	39	3,399	62,734
Additions	-	-	-	-	-	1,649	1,649
Change in capitalised decommissioning costs	(173)	-	-	-	-	-	(173)
Foreign exchange translation of foreign operations	499	-	-	-	-	-	499
Assets put in use	910	268	385	69	-	(1,632)	-
Disposals	-	-	-	-	-	-	-
Transfer to intangible assets	-	-	4	-	-	(4)	-
Transfers	13	1	(2)	(12)	-	-	-
Reclassification between categories	45	60	(657)	552	-	-	-
Disposals	(5)	(20)	(91)	(126)	-	(41)	(283)
Currency translation	-	(1)	(28)	3	-	(1)	(27)
Other movements	-	-	5	(2)	-	-	3
Balance at 31 December 2014	32,239	12,005	14,392	2,357	39	3,370	64,402

INA - INDUSTRIJA NAFTE, d.d.
Notes to the financial statements (continued)
For the year ended 31 December 2014
(all amounts are presented in HRK millions)

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

b) By asset type (continued)

INA Group

Accumulated depreciation

	Oil and gas properties	Land and buildings	Plant and machinery	Vehicles and office equipment	Collective Consumption assets	Assets under construction	Total
Balance at 1 January 2013	22,830	7,433	10,656	1,620	33	51	42,623
Charge for the year	1,375	225	536	95	-	-	2,231
Reversal of decommissioning and IAS 36 for a prior year	(8)	(11)	-	(5)	-	-	(24)
Acquisition of subsidiary Croptin	-	24	-	-	-	-	24
Impairment (net)	1,340	220	469	48	-	25	2,102
Transfers	-	113	(59)	(54)	-	-	-
Disposals	(1)	(9)	(119)	(22)	(1)	(40)	(192)
Other movements	-	(28)	(32)	52	(1)	-	(9)
Balance at 31 December 2013	25,536	7,967	11,451	1,734	31	36	46,755
Charge for the year	1,316	217	486	78	-	-	2,097
Impairment (net)	1,380	(5)	16	(2)	-	395	1,784
Transfers	7	3	(9)	(1)	-	-	-
Reclassification between categories	(327)	510	(668)	483	(5)	7	-
Disposals	(5)	(18)	(91)	(109)	-	(31)	(254)
Currency translation	-	-	(19)	2	-	-	(17)
Other movements	-	-	-	(1)	-	-	(1)
Balance at 31 December 2014	27,907	8,674	11,166	2,184	26	407	50,364

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 Notes to the financial statements (continued)
 For the year ended 31 December 2014
 (all amounts are presented in HRK million.)

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

b) By asset type (continued)

INA Group	Oil and gas properties	Land and buildings	Plant and machinery	Vehicles and office equipment	Collective Consumption assets	Assets under construction	Total
Carrying amount							
Balance at 31 December 2014	4,332	3,331	3,226	173	13	2,963	14,038
Balance at 31 December 2013	5,414	3,730	3,325	139	8	3,363	15,979

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Notes to the financial statements (continued)
For the year ended 31 December 2014
(all amounts are presented in HRK millions)

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

b) By asset type (continued)

INA, d.d.	Oil and gas properties	Land and buildings	Plant and machinery	Vehicles and office equipment	Collective consumption assets	Assets under construction	Total
Cost							
Balance at 1 January 2013	30,905	9,442	11,342	1,172	30	2,541	55,432
Additions	-	-	-	-	-	1,651	1,651
Change in capitalised decommissioning costs	(52)	-	-	-	-	-	(52)
Foreign exchange translation of foreign operations	(164)	-	-	-	-	-	(164)
Merger of Sinaco d.o.o.	-	37	97	9	-	-	143
Transfer from intangible assets	-	-	3	-	-	(5)	(2)
Assets put in use	261	237	219	84	-	(801)	-
Transfers	-	335	(410)	75	-	-	-
Disposals	-	(18)	(111)	(10)	(2)	(40)	(181)
Balance at 31 December 2013	30,950	10,033	11,140	1,330	28	3,346	56,827
Additions	-	-	-	-	-	1,578	1,578
Change in capitalised decommissioning costs	(134)	-	-	-	-	-	(134)
Foreign exchange translation of foreign operations	499	-	-	-	-	-	499
Transfer from intangible assets	-	-	3	-	-	(3)	-
Assets put in use	910	269	304	63	-	(1,546)	-
Transfers	13	1	(2)	(12)	-	-	-
Reclassification between categories	46	59	(656)	551	-	-	-
Disposals	(6)	(19)	(63)	(12)	-	(41)	(141)
Other	-	-	5	(2)	-	-	3
Balance at 31 December 2014	32,278	10,343	10,731	1,918	28	3,334	58,632

INA - INDUSTRIJA NAFTE, d.d.

Notes to the financial statements (continued)

For the year ended 31 December 2014

(all amounts are presented in HRK millions)

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

b) By asset type (continued)

INA, d.d.	Oil and gas properties	Land and buildings	Plant and machinery	Vehicles and office equipment	Collective Consumpti on assets	Assets under construction	Total
Accumulated depreciation							
Balance at 1 January 2013	22,830	6,126	8,393	941	29	50	38,369
Charge for the year	1,375	187	436	76	-	-	2,074
Reversal of depreciation of decommissioning from a prior year	(8)	-	-	-	-	-	(8)
Impairment (net)	1,340	214	468	48	-	25	2,095
Transfers	-	112	(143)	31	-	-	-
Merger of Sinaco d.o.o.	-	24	95	8	-	-	127
Disposals	(1)	(8)	(111)	(9)	(1)	(40)	(170)
Balance at 31 December 2013	25,536	6,655	9,138	1,095	28	35	42,487
Charge for the year	1,320	183	379	65	-	-	1,947
Impairment (net)	1,380	(7)	(1)	(2)	-	395	1,765
Transfers	7	3	(139)	-	-	129	-
Prior period reclassification	(327)	510	(668)	483	(5)	7	-
Disposals	(5)	(17)	(65)	(11)	-	(31)	(129)
Other	(1)	-	-	(1)	-	-	(2)
Balance at 31 December 2014	27,910	7,327	8,644	1,629	23	535	46,068

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INA - INDUSTRIJA NAFTE, d.d.
 Notes to the financial statements (continued)
 For the year ended 31 December 2014
 (all amounts are presented in HRK millions)

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

b) By asset type (continued)

INA, d.d.	Oil and gas properties	Land and buildings	Plant and machinery	Vehicles and office equipment	Collective Consumpti on assets	Assets under construction	Total
Carrying amount							
Balance at 31 December 2014	4,368	3,016	2,087	289	5	2,799	12,564
Balance at 31 December 2013	5,414	3,378	2,002	235	-	3,311	14,340

I) Oil and gas reserves

The ability of INA Group and INA, d.d. to realise the net book value of oil and gas properties (see b) above) in the future is dependent upon the extent to which commercially recoverable oil and gas reserves are available. During 2014 Exploration and Production segment performed assessment of the quantities of the Company's remaining proved developed oil and gas reserves which were commercially recoverable.

II) Ownership of land and buildings

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

III) Collective consumption assets

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

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

The Management Board has assessed the carrying values of its Exploration and Production BD, Refining & Marketing BD and Business Function assets with reference to the discounted estimated future net cash flows from the refining and wholesale business, in accordance with the requirements of IAS 36. The total net impairment charge of INA Group is HRK 1,784 million in 2014 (2013: HRK 2,102 million).

- Exploration and Production BD recorded an impairment of property, plant and equipment in amount of HRK 1,380 million in 2014, compared to impairment in amount of HRK 1,340 million in 2013.
- Refinery and Marketing BD recorded an impairment of property, plant and equipment in amount of HRK 385 million in 2014 (HRK 395 million impairment refinery assets under construction and HRK 10 million reversal of retail impairment), compared to impairment in amount of HRK 763 million in 2013 (HRK 738 million impairment of refinery and retail, HRK 25 million impairment refinery assets under construction).
- Business functions BD and others recorded an impairment of property, plant and equipment in amount of HRK 19 million in 2014, compared 2013 when there was no impairment.

Discount rates used in the current assessment in 2014 and for 2013 are assets specific and are as follows:

Exploration and Production	2014	2013
Croatia	9.80%	10.65%
Syria	17.30%	17.50%
Egypt	14.30%	14.50%
Angola	13.30%	14.50%
Refining and Marketing		
Croatia	9.80%	10.55%
Bosnia and Herzegovina	13.30%	12.84%

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

V) Review of the residual value

The Group has reviewed the residual value for depreciation purposes to reflect the changes in the definition of the residual value provided in IAS 16, and no need for any adjustment to the residual values related to the current or prior periods has been established.

16. GOODWILL

	INA Group	
	2014	2013
Cost	296	296
Accumulated impairment losses	(113)	(113)
	183	183
	2014	2013
Cost		
Balance at the beginning of year	296	296
Balance at the end of year	296	296
Accumulated impairment losses		
Balance at the beginning of year	(113)	(113)
Impairment losses recognised in the year	-	-
Balance at the end of year	(113)	(113)
Net book value	1 January 2014	31 December 2014
Investment of Croscos, d.o.o. in Rotary Zrt. Hungary	183	183
Total	183	183

During 2014 and 2013 goodwill relating to the company Rotary Zrt. was tested for impairment and test showed that the impairment is not required.

The recoverable amount of this cash-generating unit is determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by the directors covering a five-year period, and a discount rate of 9.50% per annum (2013: 9.97% per annum).

17. INVESTMENTS IN SUBSIDIARIES (in separate financial statement of INA, d.d.)

	INA, d.d.	
	31 December 2014	31 December 2013
Investments in subsidiaries	1,133	1,127
	INA, d.d.	
	2014	2013
Investments in subsidiaries at 1 January	1,127	1,161
INTERINA d.o.o. LJUBLJANA -additional capitalization by intragroup loan	14	-
SINACO d.o.o. - merger into INA, d.d.	-	(28)
CROPLIN d.o.o. - purchase of the 50% business interest	-	9
CROPLIN d.o.o. - transfer from associates to subsidiaries	-	37
INA HUNGARY - liquidation, removal from business books	-	(5)
INA MALOPRODAJNI SERVISI d.o.o. - share capital	-	1
Other subsidiaries - impairment	(8)	(48)
Total as of 31 December	1,133	1,127

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

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

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

17. INVESTMENTS IN SUBSIDIARIES (in separate financial statement of INA, d.d.) (CONTINUED)

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

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

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

The following impairments were recorded in 2014: Interina d.o.o. Ljubljana, Slovenija – HRK 5.3 million, INA Kosovo, d.o.o. Priština – HRK 1.2 million i INA Crna Gora, d.o.o. – HRK 808 thousand.

The share capital increase of Interina d.o.o. Ljubljana, Slovenia in amount of HRK 13.7 million was performed in 2014 by transferring intercompany receivables to share capital receivables of intercompany loan. The Commercial Court in Ljubljana registered the share capital increase of Interina d.o.o. Ljubljana in amount of EUR 1.8 million on 29 December 2014.

The liquidity proceeding for Interina d.o.o. Skopje, Macedonia was completed in 2014. Commercial Court in Skopje deleted the company from Court Register on 1 July 2014.

INA, d.d. Management Board in the function of Prirodni Plin Assembly adopted the decision on merger of Prirodni Plin d.o.o. in INA d.d. on 7 October 2014. Commercial Court in Zagreb registered the merger of Prirodni Plin d.o.o. to INA d.d. in court register on 3 November 2014.

Upon legal merger balances of Prirodni Plin were transferred at net book values and loss of HRK 3,195 million decreased the retained earnings of INA, d.d.

Legal merger of Prirodni plin to INA, d.d. resulted with reversal of previously impaired receivables and loan in total amount of HRK 3,184 million only on INA d.d. statement of profit or loss (out of which HRK 2,499 million are impaired receivables and amount of HRK 685 million refers to impaired loan).

Upon the consolidation of the Group figures, Prirodni plin merger effect is eliminated in the Group statement of profit or loss. and accordingly Group result for the year is lower in comparison with INA d.d.

17. INVESTMENTS IN SUBSIDIARIES (in separate financial statement of INA, d.d.) (CONTINUED)

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

The name of subsidiaries	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held by the Group	
			31 December 2014	31 December 2013
<i>Oilfield services</i>				
*Crosco Naftni Servisi d.o.o.	Oilfield services	Croatia	100%	100%
Crosco International Limited	Oilfield services	Guernsey	100%	100%
Crosco B.V.	Oilfield services	Netherland	100%	100%
Nordic Shipping Ltd	Lease of drilling platforms	Marshall Islands	100%	100%
Sea Horse Shipping Inc	Lease of drilling platforms	Marshall Islands	100%	100%
Crosco International d.o.o.	Oilfield services	Slovenia	100%	100%
Rotary Zrt.	Oilfield services	Hungary	100%	100%
Crosco International d.o.o.	Oilfield services	Bosnia and Herzegovina	100%	100%
Crosco S.A. DE C.V.	Oilfield services	Mexico	99.9%	99.9%
CorteCros d.o.o.	Distribution of anti-corrosion products	Croatia	60%	60%
Mideast Integrated Drilling & Well Services Company LLC	Oilfield services	Oman	49%	49%
<i>Oil exploration and production</i>				
*INA Naftaplin International Exploration and Production Ltd	Oil exploration and production	Guernsey	100%	100%
<i>Tourism</i>				
*Hostin d.o.o. Zagreb	Tourism	Croatia	100%	100%
<i>Ancillary services</i>				
*STSI integrirani tehnički servisi d.o.o.	Technical services	Croatia	100%	100%
*ITR d.o.o.,	Car rental	Croatia	100%	100%
*Top računovodstvo servisi d.o.o.	Accounting services	Croatia	100%	100%
<i>Production and trading</i>				
*INA Maziva d.o.o.	Production and lubricants trading	Croatia	100%	100%

17. INVESTMENTS IN SUBSIDIARIES (in separate financial statement of INA, d.d.) (CONTINUED)

The name of subsidiaries	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held by the Group	
			31 December 2014	31 December 2013
<i>Trading and finance</i>				
*Interina d.o.o.	Foreign trading	Slovenia	100%	100%
*INA BH d.d.	Foreign trading	Bosnia and Herzegovina	100%	100%
*Interina d.o.o. (until July 2014)	Foreign trading	Macedonia	-	100%
*Holdina (Guernsey) Ltd, (in liquidation)	Foreign trading	Guernsey	100%	100%
*Holdina d.o.o.	Foreign trading	Bosnia and Herzegovina	100%	100%
*INA d.o.o.	Foreign trading	Serbia	100%	100%
*INA Kosovo d.o.o.	Foreign trading	Kosovo	100%	100%
*Adriagas S.r.l.	Pipeline project company	Italy	100%	100%
*INA Crna Gora d.o.o.	Foreign trading	Montenegro	100%	100%
*Prirodni plin d.o.o. (until November 2014)	Trading	Croatia	-	100%
*INA BL d.o.o.	Trading	Bosnia and Herzegovina	100%	100%
*Petrol d.d.	Trading	Croatia	83%	83%
*INA-Osijek Petrol d.d.	Trading	Croatia	100%	100%
*Polybit d.o.o. (in liquidation)	Oil production and trading	Croatia	100%	100%
*Croplin d.o.o. (from September 2013)	Production of gas, distribution network of gas fuels	Croatia	100%	100%
*INA Maloprodajni servisi d.o.o. (from April 2013)	Trade agency in the domestic and foreign market	Croatia	100%	100%

At 31 December 2014 and 31 December 2013 Croplin d.o.o. has ownership interest of 9.1% in Energo d.o.o. Rijeka and of 40% in Plinara Istočne Slavonije d.o.o. Vinkovci.

18. INVESTMENTS IN ASSOCIATES

	INA Group		INA, d.d.	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Investments in associates	22	22	22	22
	22	22	22	22

Name of company	Activity	Proportion of ownership	INA Group		INA, d.d.	
			31 December 2014	31 December 2013	31 December 2014	31 December 2013
SOL-INA d.o.o.	Industrial gas production	37.2%	22	22	22	22
ENERGOPETROL d.d., Sarajevo BiH	Retail (oil and lubricants)	33.5%	-	-	-	-
			22	22	22	22

Pursuant to the Sales Contract, for the share of RWE DEA AG company in East Yidma concession, in 2014 INA, d.d. acquired additional 25% equity share in Marina Petroleum Company Egypt which was in ownership of company RWE. INA d.d. recorded the increase in share capital of company RWE in amount of EGP 5.000,00 and became owner of 50% share in Marina Petroleum Company.

Besides investments stated above, the Company also has interests in other entities as follows:

Name of company	Activity	Place of incorporation and operation	INA Group and INA, d.d.	
			31 December 2014	31 December 2013
Hayan Petroleum Company	Operating company (oil exploration, development and production)	Damascus, Syria	50%	50%
TERME Zagreb d.o.o.	Recreation and medical tourism	Zagreb, Croatia	50%	50%
INAgip d.o.o. Zagreb*	Exploration and production operator	Zagreb, Croatia	50%	50%
ED INA d.o.o. Zagreb*	Research, development and hydrocarbon production	Zagreb, Croatia	50%	50%
Belvedere d.d.	Hotel trade	Dubrovnik, Croatia	32%	32%
Marina Petroleum Company *	Exploration and production operator	Cairo, Egypt	50%	25%

*investments that are joint operations

18. INVESTMENTS IN ASSOCIATES (CONTINUED)

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

	31 December 2014
	<u>Energopetrol</u>
Place of business	Bosnia and Herzegovina
Percentage of interests	33.5%
Current assets	62
Non-current assets	262
Current liabilities	72
Non-current liabilities	542
Operating income	665
Loss for the year	<u>(37)</u>
Total comprehensive loss for the year	<u>(37)</u>
Group' share of loss	<u>-</u>
Group's share of net assets	-
Investments in associates	132
Impairment	<u>(132)</u>
Carrying amount of the interest, net	<u>-</u>

18. INVESTMENTS IN ASSOCIATES (CONTINUED)

	31 December 2013
	<u>Energopetrol</u>
Place of business	Bosnia and Herzegovina
Percentage of interests	33.5%
Current assets	55
Non-current assets	265
Current liabilities	74
Non-current liabilities	478
Operating income	661
Loss for the year	<u>(45)</u>
Total comprehensive loss for the year	<u>(45)</u>
Group's share of loss	<u>-</u>
Group's share of net assets	-
Investments in associates	132
Impairment	<u>(132)</u>
Carrying amount of the interest, net	<u>-</u>

The following table summarises, in aggregate, the financial information of all non-individually material associates in which Group has interests:

	INA Group and INA, d.d.	
	<u>31 December 2014</u>	<u>31 December 2013</u>
Aggregate carrying amount of the interests in these associates	22	22
The Group's share of profit from interest in non individually material associates	-	2

19. OTHER INVESTMENTS

	INA Group		INA, d.d.	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Deposits	17	25	17	25
Financial assets at fair value through profit or loss	6	6	6	6
Long-term loans to Energopertol	-	138	-	138
Other long-term loans	-	-	-	626
	23	169	23	795

20. LONG-TERM RECEIVABLES

INA Group	31 December 2014	31 December 2013
Receivables for apartments sold	94	105
Prepayments for intangible assets	50	64
Prepayments for property, plant and equipment	26	61
Derivative financial instruments	-	3
Other long-term receivables	-	-
	170	233

INA, d.d.	31 December 2014	31 December 2013
Receivables for apartments sold	94	104
Prepayments for intangible assets	50	64
Prepayments for property, plant and equipment	23	60
Long-term receivables from related party	11	11
	178	239

Prior to 1996, the Company had sold apartments it owned to its employees as provided by the laws of the Republic of Croatia. The properties were generally sold on credit, and the related housing receivables are repayable on monthly instalments over periods of 20-35 years. The amounts payable to Croatian state, accounting for 65% of the value of sold apartments are included in other non-current liabilities (see note 31). The receivables are secured with mortgage over the sold apartments. The principle is presented in the receivable amounts. The amounts do not include the interest portion.

21. AVAILABLE-FOR-SALE ASSETS

Equity instruments available-for-sale

Name of the Company	% shareholding held by INA, d.d.	Activity	INA Group and INA, d.d.	
			31 December 2014	31 December 2013
Jadranski Naftovod d.d.	11.795%	Pipeline ownership and operations	321	321
OMV Slovenia d.o.o., Koper	7.75%	Oil trading	31	31
Plinara d.o.o. Pula	49.00%	Distribution and oil trading	17	17
HOC Bjelolasica d.o.o. Ogulin	7.17%	Operations of sports facilities	5	5
BINA-FINCOM d.d. Zagreb	5.00%	Construction of highways and other roads, airfields airports	12	12
Total cost			386	386
Fair value adjustment			76	(56)
			462	330

As discussed in note 39, a substantial portion of the trading income of JANAF d.d. is derived from INA, d.d. The value of the equity share in JANAF was reported by reference to the market value of the shares as quoted on the Zagreb Stock Exchange as of 31 December 2014. The net book value of the equity investment in JANAF increased by HRK 144 million compared to the balance as of 31 December 2013 due to increase in the market value of the JANAF shares on the Zagreb Stock Exchange. The market value of the shares (118,855 shares) as of 31 December 2014 amounted to HRK 3,498.98 per share (31 December 2013: HRK 2,290.00 per share).

In 2014 the impairment on investment for entity HOC Bjelolasica d.o.o. Ogulin was recorded in amount of HRK 3 million (bankruptcy proceeding for the company has started) as well as impairment of investment for the entity Bina-Fincom d.d. in the amount of HRH 8 million, regarding the net assets of the consolidated financial statements of Bina-Fincom d.d.

22. INVENTORIES

	INA Group		INA, d.d.	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Work in progress	603	875	601	872
Refined products	403	956	347	881
Crude oil	303	436	303	436
Raw material	208	267	153	188
Spare parts, materials and supplies	226	237	78	94
Merchandise	181	61	177	55
Gas inventories	-	387	-	-
	1,924	3,219	1,659	2,526

As of 31 December 2014, inventories were measured at the lower of cost or net realizable value.

23. TRADE RECEIVABLES, NET*

	INA Group		INA, d.d.	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Trade receivables	2,916	3,488	2,051	1,820
Impairment of trade receivables	(918)	(924)	(652)	(529)
	1,998	2,564	1,399	1,291

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

	INA Group		INA, d.d.	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
less 30 days	56	81	32	14
31 - 60 days	31	23	18	15
61+ days	182	122	163	-
	269	226	213	29

Trade receivables are carried at amortised cost less impairment. According to the impairment policy, all receivables from the strategic customers of INA, d.d. are assessed on individual basis. All other outstanding receivables due beyond 60 days are impaired.

Impairment of trade receivables:

	INA Group		INA, d.d.	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Balance at beginning of the year	924	769	529	465
Effect of merger of Prirodni plin d.o.o.	-	-	115	-
Impairment losses recognised on receivables	276	381	297	254
Amounts written off as uncollectible	(5)	(53)	(34)	(36)
Reversal of impairment on amounts recovered	(277)	(173)	(255)	(154)
Balance at end of the year	918	924	652	529

23. TRADE RECEIVABLES, NET (CONTINUED)*

The ageing analysis of impaired trade receivables:

	INA Group		INA, d.d.	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
less than 60 days	-	24	-	-
61-120 days	73	58	72	54
121-180 days	79	58	78	39
181-365 days	137	205	136	139
366+ days	629	579	366	297
	918	924	652	529

Trade receivables, net balance also includes intercompany receivables of HRK 194 million as of 31 December 2014 (2013: HRK 248 million) with related party entities out of INA Group (see note 39).

24. OTHER RECEIVABLES

	INA Group		INA, d.d.	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Foreign concessions receivables	68	60	72	51
Prepayment receivables	56	69	12	21
Tax prepayments	22	260	8	228
Interest receivables	18	18	18	18
Employees receivables	4	5	4	4
Other receivables	13	14	8	8
	181	426	122	330

25. OTHER CURRENT ASSET

	INA Group		INA, d.d.	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Current portion of long terms loans	267	-	857	136
Positive fair value of hedge commodity transactions	56	26	56	26
Short-term loans and deposits	38	87	27	30
Positive fair value of derivatives	23	29	23	29
Derivative contracts	-	2	-	-
Impairment of loans	(103)	-	(175)	(71)
Other	1	-	1	-
	282	144	789	150

26. CASH AND CASH EQUIVALENTS

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

	INA Group		INA, d.d.	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Cash in the bank	421	304	298	184
Deposits until three months	14	64	-	37
Cash on hand	3	4	-	-
Other	29	30	29	31
	467	402	327	252

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

	INA Group		INA, d.d.	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Current portion of long-term loans (note 30)	199	299	187	255
Overdrafts and short-term loans	2,631	2,975	2,391	2,764
	2,830	3,274	2,578	3,019

	INA Group		INA, d.d.	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Unsecured bank loans in EUR	1,631	1,132	1,594	1,097
Unsecured bank loans in USD	853	1,684	794	1,651
Unsecured bank loans in HRK	147	159	-	16
	2,631	2,975	2,388	2,764

The most significant short-term loans as at 31 December 2014 are credit facilities with the first class banks with the purpose of financing purchases of crude oil and petroleum products ("trade finance") and framework agreements concluded with domestic banks for granting loans, issuing bank guarantees and opening letter of credits.

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

In order to secure INA Group subsidiaries short-term credit facilities, INA, d.d. issued corporate guarantees.

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

	INA Group		INA, d.d.	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Trade payables	1,713	2,841	1,256	2,146
Production and sales and other taxes payable	978	643	924	513
Advance Payments	232	243	22	22
Payroll payables	200	159	151	113
Payroll taxes and contributions	76	77	46	48
Mining fee	52	29	52	29
Negative fair value of hedge commodity transactions	35	54	35	54
Negative fair value of derivatives	20	-	20	-
Embedded derivative financial liabilities	9	7	9	-
Other	6	198	4	197
	3,321	4,251	2,519	3,122

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

Trade payables, net balance also includes intercompany payables of HRK 70 million as of 31 December 2014 (2013: HRK 62 million) with related party entities out of INA Group (see note 39).

29. ACCRUALS AND DEFERRED INCOME

	INA Group		INA, d.d.	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Deferred income from underlifting of gas	47	1	47	1
Accrued interest – long-term loans	27	29	27	29
Accrued expenses	24	72	-	4
Other	16	24	14	6
	114	126	88	40

30. LONG-TERM LOANS

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

The outstanding loans of the Group are analysed as follows:

Purpose of the loan	Loan currency	31 December 2014	31 December 2013
General corporate purpose	USD, EUR	-	1,035
Project financing	USD, EUR	806	1,046
		806	2,081
Due within one year		(187)	(255)
Total long-term loans INA, d.d.		619	1,826
Other long term loans	EUR,USD,HUF,HRK	21	107
		21	107
Due within one year		(12)	(44)
Total long-term loans INA Group		628	1,889

30. LONG-TERM LOANS (CONTINUED)

INA Group	Weighted average	Weighted average	31 December 2014	31 December 2013
	interest rate	interest rate		
	31 December 2014	31 December 2013		
	%	%		
Bank loans in USD	2.30	3.75	496	649
Bank loans in EUR	4.04	4.18	326	1,484
Bank loans in HRK	3.80	5.10	5	6
Bank loans in HUF	-	6.98	-	49
Total			827	2,188
Payable within one year			(199)	(299)
Total long-term loans			628	1,889

INA, d.d.	Weighted average	Weighted average	31 December 2014	31 December 2013
	interest rate	interest rate		
	31 December 2014	31 December 2013		
	%	%		
Bank loans in USD	2.28	3.80	480	600
Bank loans in EUR	4.04	4.18	326	1,481
Total			806	2,081
Payable within one year			(187)	(255)
Total long-term loans			619	1,826

The maturity of the loans may be summarised as follows:

	INA Group		INA, d.d.	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Current portion of long-term debt	199	299	187	255
Payable within one to two years	194	294	187	252
Payable within two to three years	187	1,331	186	1,312
Payable within three to four years	124	263	123	262
Payable within four to five years	123	1	123	-
Total	827	2,188	806	2,081

30. LONG-TERM LOANS (CONTINUED)

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

	<u>INA Group</u>	<u>INA, d.d.</u>
Balance at 31 December 2013	2,188	2,081
Payable within one year (included within bank loans and overdrafts – note 27)	299	255
Payable after more than one year	1,889	1,826
Balance at 1 January 2014	2,188	2,081
New borrowings raised	2,202	2,202
Amounts repaid	(3,650)	(3,564)
Foreign exchange losses	87	87
Balance at 31 December 2014	827	806
Payable within one year (included within bank loans and overdrafts – note 27)	199	187
Payable after more than one year	628	619

The principal long-term loans outstanding at 31 December 2014 and loans signed during 2014 were as follows:

Privredna banka Zagreb

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

EBRD

In 2010, INA, d.d. signed long-term loan agreement with EBRD in the amount of EUR 160 million with alternative withdrawal in USD. The purpose of the loan is finalization of the first phase of the modernization of Sisak and Rijeka refineries. In 2014 amendment agreement was signed by which for the remaining outstanding amount terms are more favourable and maturity was prolonged until 2019.

ICF DEBT POOL LLP

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

THE BANK OF TOKYO-MITSUBISHI UFJ, LTD.

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

MOL Group

In 2013 INA, d.d. signed an intragroup long-term multi-currency revolving loan agreement for general corporate purposes provided from MOL Group by which intragroup financing has been increased from USD 200 million to USD 300 million with maturity in 2016.

30. LONG-TERM LOANS (CONTINUED)*Compliance with loan agreements*

During 2014 INA Group and INA, d.d repaid all of their liabilities in respect of loans (principal, interest and fees) on a timely basis, and there were no instances of default or delinquency.

31. OTHER NON-CURRENT LIABILITIES

	INA Group		INA, d.d.	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Liabilities to Government for sold apartments	51	57	51	57
Deferred income for sold apartments	8	8	7	8
Liabilities for derivatives financial instruments	5	11	5	-
	64	76	63	65

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

INA - INDUSTRIJA NAFTE, d.d.
Notes to the financial statements (continued)
For the year ended 31 December 2014
(all amounts are presented in HRK millions)

32. PROVISIONS

INA Group	Environmental provision	Decommissioning charges	Legal claims	Redundancy costs	Unused vacation	Tax obligation claims of Holdina Sarajevo		Provision for employee benefits	Other	Total
						Sarajevo	Other			
Balance at 1 January 2013	309	2,345	62	22	67	23	-	229	-	3,057
Charge for the year	10	-	54	42	60	-	66	93	-	325
Effect of change in estimates	(17)	(52)	-	-	-	59	(7)	-	-	(17)
Interest	8	68	-	-	-	-	-	-	-	76
Provision utilised during the year	(9)	(1)	(20)	(22)	(66)	(2)	(14)	(42)	-	(176)
Balance at 31 December 2013	301	2,360	96	42	61	80	45	280	-	3,265
Charge for the year	19	-	60	126	83	-	42	312	-	642
Effect of change in estimates	4	(229)	-	-	-	4	-	-	-	(221)
Interest	8	72	-	-	-	-	-	-	-	80
Provision utilised during the year	(23)	(5)	(31)	(79)	(60)	(13)	(42)	(108)	-	(361)
Balance at 31 December 2014	309	2,198	125	89	84	71	45	484	-	3,405

INA - INDUSTRIJA NAFTE, d.d.
Notes to the financial statements (continued)
For the year ended 31 December 2014
(all amounts are presented in HRK millions)

32. PROVISIONS (CONTINUED)

INA, d.d.	Environmental provision	Decommissioning charges	Legal claims	Redundancy costs	Unused vacation	Provision for		Total
						employee benefits	Other	
Balance at 1 January 2013	295	2,345	42	-	47	-	218	2,947
Charge for the year	10	-	54	31	44	27	88	254
Effect of change in estimates	(16)	(52)	-	-	-	-	-	(68)
Interest	8	68	-	-	-	-	-	76
Provision utilised during the year	(9)	(1)	(15)	-	(47)	-	(40)	(112)
Balance at 31 December 2013	288	2,360	81	31	44	27	266	3,097
Charge for the year	18	-	54	112	45	27	286	542
Effect of change in estimates	4	(174)	-	-	-	-	-	(170)
Interest	8	72	-	-	-	-	-	80
Provision utilised during the year	(23)	(5)	(22)	(67)	(44)	(27)	(90)	(278)
Balance at 31 December 2014	295	2,253	113	76	45	27	462	3,271

	INA Group		INA, d.d.	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Analysed as:				
Current liabilities	568	511	422	390
Non-current liabilities	2,837	2,754	2,849	2,707
	3,405	3,265	3,271	3,097

32. PROVISIONS (CONTINUED)

Environmental provision

The environmental provision recorded by INA Group is HRK 309 million on 31 December 2014 (31 December 2013: HRK 301 million). The environmental provision covers treatment of accumulated waste generated by former activity, soil excavation and replacement during the reconstruction of filling stations and investigation to determine the extent of the contaminations.

Decommissioning charges

The INA Group records provisions after initial recognition for the present value of estimated future costs of abandoning oil and gas production facilities after the end of production. The estimate of provisions is based on the applicable legal regulations, technology and price levels. Decommission assets are created in an amount equal to the estimated provision, which is also amortized as part of the capital asset costs. Any change to the present value of the estimated costs is reflected as an adjustment of the provisions and the decommission assets.

As of 31 December 2014, the Company recognised a decommissioning provision for 57 oil and gas production fields, 2 non-production fields, 8 positive non-production wells and 144 negative non-production wells. As of 31 December 2013, the Company recognised a decommissioning provision for 56 oil and gas production fields, 3 non-production fields, 8 positive non-production wells and 144 negative non-production wells.

Legal case

Provisions for legal claims are based on the advice of the legal counsel, taking into consideration claim value and probability of outflow of resources that will be required to settle the obligation.

Redundancy cost

Provisions for redundancy are recorded based on Management Decision on Redundancy for the termination of employment in order to decrease the number of employees due to economic, technical and organizational reasons.

Unused holiday

Provisions for unused holiday is determined based on actual data (number of employees, unused days, payroll) taken into calculation.

Provision for employee benefits

Provisions for employee benefits refer to the calculation of estimated value of the future reimbursements, which are paid off to the employees as benefits for a certain time spent in INA Group companies.

Other provision

Other provisions of HRK 222 million relate to provision for contractual liability for investments in Iran initially recognized in 2012. INA d.d. is committed to spend certain resources by Production Agreement. Since Iran activities have been discontinued, the difference between Contractual liability and actual spent funds was recognized as provisions. Remaining amount mainly relates to provision for oil profit tax in Angola in the amount of HRK 163 million and provision for workers incentives in the amount of HRK 42 million.

33. RETIREMENT AND OTHER EMPLOYEE BENEFITS

According to the Collective Agreement the Group bear the obligation to pay jubilee awards, retirement and other benefits to employees. The Group operates defined benefit schemes for qualifying employees. Under the schemes, the employees are entitled to an early retirement benefit in the net amount of HRK 20,000 of which HRK 12,000 represent taxable portion. No other post-retirement benefits are provided. Jubilee awards are paid out according to the following fixed amounts and anniversary dates:

- HRK 2,500 for 10 years of continuous service
- HRK 3,000 for 15 years of continuous service
- HRK 3,500 for 20 years of continuous service
- HRK 4,000 for 25 years of continuous service
- HRK 4,500 for 30 years of continuous service
- HRK 5,000 for 35 years of continuous service
- HRK 6,000 for 40/45 years of continuous service.

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

In respect of the Group's personnel who are employed in Croatia, such social payments as are required by the authorities are paid by the 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 2014 by independent actuarial expert. In 2014, the Company made a provision of HRK 60 million in respect of jubilee awards and HRK 76 million for regular retirement allowance.

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

Actuarial estimates were derived based on the following key assumptions:

	Valuation at	
	31 December 2014	31 December 2013
Discount rate	3.7%	5.4%
Average longevity at retirement age for current pensioners (years)		
males	13.5	13.5
females	16.9	16.9
Average longevity at retirement age for current employees (future pensioners) (years)		
males	13.5	13.5
females	16.9	16.9
Mortality table	HR 2004 70,00%	HR 2004 70,00%

33. RETIREMENT AND OTHER EMPLOYEE BENEFITS (CONTINUED)

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

	INA Group		INA, d.d.	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Service cost:				
Cost of current period	14	7	8	4
Interest	9	5	7	4
Past service cost, including losses/(gains) on curtailments	23	(4)	16	(4)
Components of defined benefit costs recognized in profit and loss:	46	8	31	4
Remeasurement of the net defined benefit liability:				
Actuarial gains and losses arising from changes in demographic assumptions	-	20	-	20
Actuarial gains and losses arising from changes in financial assumptions	13	(8)	11	(7)
Actuarial gains and losses arising from experience adjustments	(10)	12	(4)	10
Components of defined benefit costs recognised in profit and loss account and other comprehensive income:	3	24	7	23
Total	49	32	38	27

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

	INA Group		INA, d.d.	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Present value of defined benefit obligations	184	146	136	105
Liability recognised in the balance sheet	184	146	136	105

	INA Group		INA, d.d.	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
This amount is presented in the balance sheet as follows:				
Current liabilities	12	11	8	7
Non-current liabilities	172	135	128	98
	184	146	136	105

33. 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.	
	2014	2013	2014	2013
At 1 January	146	110	105	73
Past service cost recognised in other comprehensive income	-	13	-	11
Cost of current period	14	7	8	4
Interest	9	5	7	4
<i>Actuarial (gains) or losses</i>				
Actuarial gains and losses arising from changes in demographic assumptions	-	20	-	20
Actuarial gains and losses arising from changes in financial assumptions	13	(8)	11	(7)
Actuarial gains and losses arising from experience adjustments	(10)	12	(4)	10
Past service cost, including losses/(gains) on curtailments	23	(4)	16	(4)
Benefit paid	(11)	(9)	(7)	(6)
Closing defined benefit obligation	184	146	136	105

34. SHARE CAPITAL

	INA Group and INA, d.d.	
	31 December 2014	31 December 2013
Issued and fully paid:		
10 million shares (HRK 900 each)	9,000	9,000

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

35. REVALUATION RESERVES

INA Group and INA, d.d.

	31 December 2014	31 December 2013
Balance at beginning of year	6	13
Increase/(decrease) arising on revaluation of available-for-sale securities (Janaf)	144	(9)
Deferred tax effect	(29)	2
Balance at the end of year	121	6

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

In 2014 there was a significant increase in the value of JANAF on the stock market; therefore an increase value of adjustments has been recorded in the revaluation reserve.

36. OTHER RESERVES

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

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

Movements on reserves during the year were as follows:

INA Group

	Combined reserves at 31 December 1993	Foreign currency translation	Other reserves	Total
Balance at 1 January 2013	2,132	(74)	447	2,505
Movements during 31 December 2013	-	(221)	-	(221)
Balance at 31 December 2013	2,132	(295)	447	2,284
Movements during 31 December 2014	-	567	-	567
Balance at 31 December 2014	2,132	272	447	2,851

INA, d.d.

	Combined reserves at 31 December 1993	Foreign currency translation	Other reserves	Total
Balance at 31 December 2014	1,667	415	447	2,529
Balance at 31 December 2013	1,667	(181)	447	1,933

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37. RETAINED EARNINGS

	INA Group	INA, d.d.
	<u>Retained earnings</u>	<u>Retained earnings</u>
Balance at 1 January 2013	3,437	4,366
Profit for the year	(1,508)	(1,633)
Effect of purchase of non - controlling interest	(343)	(343)
Balance at 31 December 2013	1,586	2,390
Loss for the year	(1,897)	631
Loss brought forward from merger of Prirodni plin	-	(3,195)
Balance at 31 December 2014	(311)	(174)

38. NON-CONTROLLING INTEREST

	INA Group	
	31 December 2014	31 December 2013
Balance at beginning of year	(1)	(1)
Share of profit for the year	-	-
Balance at end of year	(1)	(1)

39. RELATED PARTY TRANSACTIONS

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

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

39. RELATED PARTY TRANSACTIONS (CONTINUED)

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

INA Group

	Sales of goods		Purchase of goods	
	2014	2013	2014	2013
Companies available-for-sale				
JANAF d.d. Zagreb	3	3	29	86
Strategic partner				
MOL Nyrt.	649	427	756	936
Companies controlled by strategic partner				
Tifon d.o.o.	733	835	28	43
Energopetrol d.d.	341	370	-	1
Kalegran Ltd.	135	129	3	3
MOL Commodity Trading Kft.	109	115	5	-
MOL SLOVENIJA d.o.o.	92	41	81	85
Slovnaft, a.s.	26	101	123	82
TVK Ingatlankezeselo Kft.	10	-	-	-

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

INA Group

	Amounts owed by related parties		Amounts owed to related parties	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Companies available-for-sale				
JANAF d.d. Zagreb	-	1	-	46
Strategic partner				
MOL Nyrt.	77	83	56	43
Companies controlled by strategic partner				
Tifon d.o.o.	51	36	1	2
Energopetrol d.d.	41	50	-	-
Kalegran Ltd.	22	31	-	-
MOL SLOVENIJA d.o.o.	3	4	7	9
Slovnaft, a.s.	-	44	6	8

39. RELATED PARTY TRANSACTIONS (CONTINUED)

Loan to and from related parties:

INA Group	Amounts of loans owed by related parties		Amounts of loans owed to related parties	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Companies controlled by strategic partner				
Energopetrol d.d.	267	237	-	-
MOL Group Finance SA	-	-	-	611

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

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

INA, d.d.	Sales of goods		Purchase of goods	
	2014	2013	2014	2013
Related companies				
Prirodni plin d.o.o. Zagreb (until November 2014)	3,523	4,541	568	722
Holdina Sarajevo	2,426	2,521	-	-
Osijek Petrof d.d.	92	102	-	-
INA Crna Gora d.o.o Podgorica	88	80	-	-
STSI d.o.o. Zagreb	25	28	617	552
Croscoc d.o.o.	21	12	353	284
Interina d.o.o. Ljubljana	13	16	-	-
INA Maziva d.o.o.	4	20	56	61
TOP Računovodstvo Servisi d.o.o.	7	8	48	50
ITR d.o.o. Zagreb	1	1	5	21
Companies available-for-sale				
JANAF d.d. Zagreb	3	3	28	86
Strategic partner				
MOL Nyrt.	464	159	539	599
Companies controlled by strategic partner				
Tifon d.o.o.	731	833	28	43
MOL Commodity Trading Kft	109	115	5	-
MOL SLOVENIJA d.o.o.	89	39	-	-
Slovnaft, a.s.	26	101	123	82
Energopetrol d.d.	22	20	-	1
TVK Ingatlankezelő Kft.	10	-	-	-

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39. RELATED PARTY TRANSACTIONS (CONTINUED)

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

INA, d.d.	Amounts owed by related parties		Amounts owed to related parties	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Subsidiaries				
Holdina Sarajevo	128	227	34	21
Oslijek Petrol d.d.	14	15	1	1
STSI d.o.o. Zagreb	8	6	233	196
INA Beograd d.o.o Beograd	8	7	-	-
INA Crna Gora d.o.o Podgorica	7	6	-	1
Crosco d.o.o.	5	2	88	101
Interina d.o.o. Ljubljana	1	2	-	-
TOP Računovodstvo Servisi d.o.o.	1	2	3	-
INA Maziva d.o.o.	1	1	6	7
Prirodni plin d.o.o. Zagreb (until november 2014)	-	3,531	-	105
ITR d.o.o. Zagreb	-	-	-	4
Companies available-for-sale				
JANAF d.d. Zagreb	1	-	-	46
Strategic partner				
MOL Nyrt.	43	38	47	34
Companies controlled by strategic partner				
Tifon d.o.o.	51	36	1	2
MOL SLOVENIJA d.o.o.	3	4	-	-
Energopetrol d.d.	1	1	-	-
Slovnaft, a.s.	-	44	6	8

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

In 2014 INA, d.d. recognised impairment on receivables from related parties in the amount of HRK 2 million, while income from collection of impaired receivables from related parties amounted to HRK 2,075 million.

39. RELATED PARTY TRANSACTIONS (CONTINUED)

Loan to and from related parties:

INA, d.d.	Amounts of loans owed by related parties		Amounts of loans owed to related parties	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Related companies				
Croscos d.o.o.	461	626	-	-
Osijek Petrol d.d.	90	81	-	-
INA BH d.d. Sarajevo	33	29	-	-
INA Crna Gora d.o.o. Podgorica	22	23	-	-
Interina d.o.o. Ljubljana	16	21	-	-
Prirodni plin d.o.o. (until November 2014)	-	555	-	-
ITR	-	12	-	-
INA Maziva d.o.o.	-	-	61	45
Adrigas Milano	-	-	8	8
Hostin d.o.o.	-	-	7	5
Polybit	-	-	2	2
STSI d.o.o. Zagreb	-	-	-	73
Companies controlled by strategic partner				
Energopetrol d.d.	267	237	-	-
MOL Group Finance SA	-	-	-	611

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

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

Compensation of key management personnel

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

	INA, d.d.	
	31 December 2014	31 December 2013
Short-term employee benefits	42.1	44.7
Termination bonuses	1.0	2.6
Total	43.1	47.3

39. RELATED PARTY TRANSACTIONS (CONTINUED)

Compensation of key management personnel (continued)

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

Other related party transactions

The Company remains the customer of company JANAF d.d., in which it has a holding of 11.795% (Note 21). During 2014, approximately HRK 29 million of JANAF's total revenue in the amount of HRK 446 million account for sales revenue in respect of INA, d.d. as user of the pipeline system of JANAF d.d. (2013: HRK 86 million out of HRK 452 million total revenue).

40. COMMITMENTS

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

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

40. COMMITMENTS (CONTINUED)

Investment in contract areas of North Adriatic

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

- INA, d.d. and ENI Croatia B.V. have closed down in 1996 and 1997 Production Sharing Agreements in contract areas Aiza - Laura and Ivana, and realization of the partnership takes place through a joint operating company INAgip with interests 50 : 50,
- INA, d.d. and EDISON INTERNATIONAL S.p.A. have closed down in the 2002 Production Sharing Agreement in the contract area Izabela & Iris / Iva. Partnership with EDISON takes place through the operating company ED-INA with shareholding: 50% : 50%.

On the North Adriatic Area (3 development concession) are in total 18 production platforms and 1 compressor platforms, with a total of 46 production wells.

Until now, in the contract areas North Adriatic and Aiza-Laura, INA, d.d. has invested in capital construction of mining facilities and plants HRK 4.8 billion, while of the total gained reserves INA's share will range about 63% of the produced gas, which is further placed on the Croatian gas market.

Following completion of negotiations between INA, d.d. and Edison and signing of all necessary Contracts and Procedures, production started on Izabela gas field at the beginning of July 2014. INA's share of gas from Izabela field by the end of 2014 amounts 54.872.120 Sm³, which is 43% of total gas delivered from Izabela field on Ivana K platform.

On 31 December 2014 INAgip had in both contract areas 194 active contracts amounting in total to HRK 731.72 million. The remaining commitments under these contracts on 31 December 2014 amounted to HRK 233.1 million.

For the need of the development of the Izabela gas field from 1 January 2008 until 31 December 2014, ED-INA has concluded 93 (35 are still active) contracts amounting in total to EUR 141 million from which EUR 139.8 million has been carried out on 31 December 2014.

"Take or pay" contract

On 1 October 2014 additional the contract with MET International AG was signed regarding natural gas import valid until 30 September 2015. As of 31 December 2014 future obligations in total amount HRK 22.8 million until the contract expiry.

Gas Transportation Contract

The future gas transportation contracted commitments with GEOPLIN d.o.o. until 2016, whereas with Gas Connect Austria and ENI SpA until 2018 amount to approximately HRK 221 million in total.

40. COMMITMENTS (CONTINUED)

Operating leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

Minimum lease payments under non-cancellable operating leases are as follows:

	INA Group		INA, d.d.	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
within 1 year	55	59	44	40
between 2 - 5 years	78	74	59	74
beyond 5 years	-	-	-	-
	133	133	103	114

Out of the outstanding operating lease liabilities as of 31 December 2014 HRK 103 million were contracted by INA, d.d. and HRK 25 million were contracted by Rotary Zrt.

41. CONTINGENT LIABILITIES

Environmental matters

The principal activities of the Company and the Group, comprising oil and gas exploration, production, transportation, refining and distribution, can have inherent effects on the environment in terms of emissions into soil, water and air. Both, the Company and the Group regularly record, monitor and report on environmental emissions in accordance with their obligations specified in applicable laws. The environmental effects are monitored by local and national governmental environmental authorities. For all the stated release into the environment, the Company and Group, in accordance with the principle of "polluter pays" bear the costs caused by pollution. The costs include costs connected with environmental pollution, costs of environmental monitoring and the application of established measures and costs of taking measures to prevent environmental pollution, regardless of whether these costs are incurred as a result of the prescribed liability for environmental pollution, the release of emissions into the environment or as a fee established under appropriate financial instruments, or an obligation prescribed by regulation.

Harmonization of INA's operations with the Industrial Emission Directive (IED)

Directive 2010/75/EU on industrial emissions (integrated pollution prevention and control) combines legislation concerning environmental protection for industrial plants in one single document and completely replaces the IPPC Directive from 7 January 2014. Industrial Emissions Directive regulates the issue of environmental permits by which plant working conditions are determined and requires the application of best available techniques (BAT) by which a high level of environmental protection in general is achieved (an integrated approach for prevention and control of emissions to air, water and soil, in waste management, in energy efficiency and accident prevention).

41. CONTINGENT LIABILITIES (CONTINUED)

Environmental matters (continued)

Harmonization of INA's operations with the Industrial Emission Directive (IED)(continued)

In order to align the existing technology with the best available techniques, INA, d.d. has initiated several projects that are in various stages of implementation. Since alignment with BAT requires time and considerable financial investments, INA, d.d. in Croatia pre-accession negotiations with the EU obtained for its refineries in Sisak and Rijeka a transition period to achieve full compliance by 31 December 2017.

During 2014 INA obtained Decisions on integrated environmental protection (environmental permits) for its four plants: Fractionation Facilities Ivanić grad, Gas Processing Facilities Molve, Sisak Refinery and Rijeka Refinery.

In October 2014 in the Official Journal of the EU, a new Commission Implementing Decision establishing best available techniques (BAT) conclusions for the refining of mineral oil and gas (2014/738/EU), under Directive 2010/75/EU on industrial emissions. These BAT conclusions are a key element of refinery reference document on BAT (REF BREF, Refinery Best Available Technique Reference Document) which, among other things, prescribes the ranges of emission limit values that can be achieved by using the best available techniques as well as requirements for emission monitoring and are a reference for determining the conditions of the environmental permit. In these conclusions as one of the best available techniques for integrated emission management of SO_x and / or NO_x it is recognized so called "bubble" concept. Bubble is especially suitable for oil refining sites because it allows refineries to treat all their stacks as they are enclosed by a giant bubble, which provides flexibility in choosing which unit shall be upgraded based on the lowest cost, so long as overall resulting emissions are equal to or lower than emissions that would be achieved through a unit-by-unit application of the individual BAT-AELs.

The new Regulation on environmental permit (OG 08/14), which entered into force at the end of January 2014, a list of activities for which it is mandatory to obtain the environmental permit has been extended so INA Maziva d.o.o. are now also obliged to obtain the environmental permit (temporary storage of hazardous waste in storage capacities of more than 50 tons).

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

European Union Emissions Trading Scheme, EU ETS, is one of the fundamental mechanisms of the European Union in the fight against climate change with a view to meeting the commitments made under the Kyoto Protocol. Inside the Scheme, a part of the emission allowances (one allowance = 1 tonne of CO₂) are allocated to installations for free and they are used to "cover" the emissions from the previous year. If the installation has a shortage of allowances in respect to verified emissions, the rest must be bought on the market through auctioning.

From 1 January 2013 Rijeka Refinery, Sisak Refinery, Fractionation Facilities Ivanić Grad and Gas Processing Facilities Molve are a part of the ETS. All four INA's ETS installations have open Operator Holding Account in the Union Registry. Verified Annual Greenhouse Gas Report had been submitted to Croatian Environment Agency on time, until 31 March 2014, verifier then entered verified emissions into the Registry and emission allowances had been surrendered in amount equal to verified emissions until 30 April 2014.

41. CONTINGENT LIABILITIES (CONTINUED)

Environmental matters (continued)

Harmonization of INA's operations with the air protection legislation

From 1 January 2016 existing plants have to comply with more stringent emission limit values (ELV), as stipulated by Industrial Emissions Directive (IED). The provisions of this Directive have been transposed into Croatian legislation by Regulation on limit values for pollutant emissions from stationary sources into the air (OG 117/12, OG 90/14). To achieve the prescribed emission limit values, IED provides a possibility to use the exemption for existing plants and one of them is the inclusion in the Transitional National Plan (TNP), in addition to meeting certain conditions. Sisak and Rijeka Refineries have submitted an application for inclusion of its existing large combustion plants in the TNP, which was approved by the European Commission during 2014.

By inclusion in the TNP, facilities are given the possibility of gradual emission reduction of one or more pollutants (nitrogen oxides, sulphur dioxide and particulate matter) through the period of 1 January 2016 to 30 June 2020 for the realization of investments and measures for emission reduction which ensure compliance with more stringent ELVs.

Regarding compliance with the technical environmental standards for Volatile Organic Compound (VOC) emissions resulting from the storage and distribution of petrol, in compliance is the entire INA's retail network as well as tank truck loading station in Sisak Refinery. In the next three years it is planned HRK 428.5 million for full compliance with the technical environmental standards for VOC's.

Environmental provisions

Environmental obligations are the obligations of a company to recover pollutions caused by the company's operations. They can be divided into two categories: environmental provisions and contingencies. At 31 December 2014, INA, d.d. made environmental provisions in the amount of HRK 295 million, whereas the provisions at the Group level amounted to HRK 309 million. Contingencies at the INA Group and INA, d.d. levels were estimated at HRK 635 million and HRK 423 million, respectively. The estimates were not recognised because the timing of the event is uncertain and there is no evidence of pollution.

Emission allowances

Under European Union Emission Trading Scheme, INA, d.d. companies receive a certain amount of emission allowances for free. The allowances are received on an annual basis, and in return, INA, d.d. is required to surrender allowances equal to its actual verified emissions. The number of emission allowances allocated for free is calculated using European Commission filled in by installations, and submitted to Ministry of Environmental and Nature protection by 31 December of the current year for that year.

INA, d.d. has adopted the net liability approach to the emission allowances granted. Therefore, a provision is recognised only when actual emissions exceed the allocated emission allowances. Provision recorded for exceeding amount of emission rights granted should be charged with purchased rights. The emission costs are recognised as other operating costs. Detail explanation on the accounting and provision calculation is regulated by internal Regulation on greenhouse gas and emission allowances management in INA, d.d.

Free Emission allowances are granted with respect to one year period and are distributed by competent authority.

41. CONTINGENT LIABILITIES (CONTINUED)

Litigation

GWDF Partnership München and GWDF Limited Cyprus

GWDF claims compensation for damage incurred due to loss of rights resulting from the Joint Venture Agreement concluded with the company Saknavtobi, which allegedly occurred through defendant's conduct, i.e. due to its withdrawal from negotiations whereby it should have become a party in the joint business venture.

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

We believe that the court has most probably still not investigated the quite unusual procedural situation in the case and that it still does not have a clear standpoint regarding the direction in which the case should be conducted, which is why it has decided to first gather all relevant laws and then to pass further decisions.

After more than three years, a hearing was held on 11 September, 2014 with a new judge, but still no decision was made on relevant law.

The situation of INA, d.d. has not changed even after the hearing of 11 September, 2014, while the delivery of relevant law has still not been resolved. The evidence processed so far has not significantly changed the position of the parties in relation to what it was at the beginning of the dispute, while the heard witnesses primarily gave statements on the capacity to sue. After a long period of inactivity, the case was assigned to a new judge, who held the afore-stated hearing. Despite the hearing, no decision was made on relevant law and no significant progress was made in the case concerned. Thus, INA's position has remained unchanged.

Since pre-contractual liability for damage (*culpa in contrahendo*) is very differently regulated in German and Croatian law, the choice of relevant law will directly affect the outcome of the dispute. Since the witnesses have not been heard on the merits of the case, its outcome is at the moment completely uncertain. Therefore, no provision is required for this matter.

OTF

OTF is seeking actual damages and lost profit in amount of HRK 66 million due to non-compliance with i.e. breach of the provisions of the LSTK Sulphur Recovery Unit (Claus unit) Construction Agreement for the Rijeka Refinery and due to unpaid amounts under the invoiced change orders. Management believes, based on legal advice, that potential loss in relation to OTF case is up to HRK 23 million as of 31 December 2014 and for that amount provision is recognized.

OTF also deems that INA has illegally collected a bank guarantee equalling 15% of the stipulated price, so it is seeking reimbursement of that amount as well.

The plaintiff initiated arbitral proceedings by filing a statement of claim to the Permanent Arbitration Court at the Croatian Chamber of Economy on 23 July 2013, which INA received on 27 August 2013.

The outcome of the dispute is uncertain. Considering the progress of the hearings, expert reports and witness statements, it can be expected that OTF will be rejected with more than 50% of the litigation claim. However, the outcome of arbitration is also uncertain because it is not probable that the litigation claim will be fully dismissed or adopted. Namely, the claim contains several requests, and in many of them there are elements of divided liability of INA and OTF. Moreover, success in the dispute also depends on the manner in which the court will apply substantive law, which has not been suggested in any way by the Tribunal.

41. CONTINGENT LIABILITIES (CONTINUED)

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

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

Management believes, based on legal advice, that no losses will be incurred, so no provision has been recognized as of 31 December 2014.

Supreme Court has not decided on review to this date, so legal actions were not taken during 2014.

42. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT*Gearing ratio*

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

The capital structure of the Group consists of debt part which includes borrowings as detailed in notes 27 and 30 offset by cash and bank balances (so called net debt) and shareholder equity comprising of issued capital, reserves, retained earnings and non-controlling interests as detailed in notes 34 to 38.

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

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

	INA Group		INA, d.d.	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Debt:	3,458	5,163	3,197	4,845
Long term loans	628	1,889	619	1,826
Short term loans	2,631	2,975	2,391	2,764
Current portion of long-term borrowings	199	299	187	255
Cash and cash equivalents	(467)	(402)	(327)	(252)
Net debt	2,991	4,761	2,870	4,593
Equity	11,660	12,875	11,476	13,329
Equity and net debt	14,651	17,636	14,346	17,922
Gearing ratio	20%	27%	20%	26%

Debt is defined as long-term and short-term borrowings and credit lines (excluding derivatives and financial guarantee contracts), as described in notes 27 and 30.

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

42. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Categories of financial instruments

	INA Group		INA, d.d.	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Financial assets				
Cash and cash equivalents	467	402	327	252
Loans and receivables	2,549	3,756	3,564	4,200
Available-for-sale financial assets	462	330	462	330
Positive fair value of hedge commodity transactions	56	26	56	26
Positive fair value of derivatives	23	29	23	29
Financial assets designated as at fair value through profit and loss	6	6	6	6
Embedded derivative financial instruments	-	5	-	-
Financial liabilities				
Loans and borrowings	3,459	5,164	3,640	5,414
Trade payables	1,713	2,841	1,256	2,146
Negative fair value of hedge commodity transactions	35	54	35	54
Negative fair value of derivatives	20	-	20	-
Embedded derivative financial instruments	14	18	14	-

Financial risk management objectives

INA Group in course of business continuously monitors and manages financial risks. The Risk Management and Hedging Policy for INA Group provides the framework under which INA, d.d. and its consolidated subsidiaries manage and maintain commodity, foreign exchange and interest rate risk at an acceptable level, allowing INA, d.d. to achieve its strategic objectives while protecting the future financial stability and flexibility of INA Group. INA, d.d. integrates and measures financial risks on INA Group level in the financial risk model using Monte Carlo simulation, while senior management reviews regularly the financial risk reports.

By taking this general approach, INA, d.d. assumes the business activities as a well-balanced integrated portfolio and does not hedge individual elements of its exposure to financial risks in a normal course of business. Therefore, INA, d.d. actively manages its financial risk exposure for the following purposes:

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

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

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

42. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Market risk

Commodity price risk management (price risk)

The volatility of crude oil and gas prices is the prevailing element in the business environment of INA Group. INA Group buys crude oil mostly through short-term arrangements in US dollars at the current spot market price. Out of gas quantities imported in 2014, INA Group imported gas mostly in EUR based on spot prices, while only smaller portion was imported in USD based on fixed prices.

In addition to exploration and production, and refinery operations, one of the main core activities of INA, d.d. are marketing and sale of refinery products and natural gas. Prices of crude products were determined in accordance with the Highest Retail Refined Product Pricing Regulation until it was repealed, after which prices were determined weekly based on market principles, which enables quicker responses to market prices fluctuations.

In accordance with The Risk Management and Hedging Policy for INA Group, for the purpose of hedging financial risk exposure on corporate and business segments level, INA, d.d. may use forward (swap) and option instruments. In 2014 INA, d.d. entered into short-term forward swap transactions to hedge its exposure on changes in inventory levels, changes in pricing periods and fixed price contracts. The transactions were initiated to reduce exposures to potential fluctuations in prices over the period of decreasing inventories at the refineries, as well as to match the pricing period of purchased crude oil and crude products with the crude oil processing and refinery product retail pricing periods. These transactions were hedging transactions and qualify for hedge accounting treatment under IFRS in case of matching the pricing period of purchased crude oil and crude products with the crude oil processing and refinery product retail pricing periods.

At 31 December 2014 fair value of hedged items under commodity derivative transaction designated as fair value hedge was a net receivable of HRK 56 million and net payable of HRK 35 million. The corresponding figures at 31 December 2013 were HRK 26 million receivable and HRK 54 million payable (see Note 25).

Foreign currency risk management

As INA Group operates both in Croatia and abroad, many of its transactions are denominated and executed in foreign currencies, hence INA, d.d. is exposed to exchange rate risks.

INA Group has a net long USD and EUR, and a net short HRK operating cash flow position. Generally, the Group manages its currency risk using natural hedging, which is based on the principle that the combination of currencies in the debt portfolio should reflect the currency position of the Group's free cash flow. Furthermore, in order to avoid excessive exposures to fluctuations in the foreign exchange rate with respect to a single currency (i.e. USD), INA, d.d. applies a portfolio-based approach while selecting the currency mix for its debt portfolio.

INA, d.d. may use a cross-currency swap to adjust its currency mix in the debt portfolio. At 31 December 2014 there were no outstanding cross-currency transactions.

42. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

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

INA Group

	Liabilities		Assets	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Currency EUR	2,246	2,298	268	219
Currency USD	2,145	3,697	1,124	1,280
	4,391	5,995	1,392	1,499

INA, d.d.

	Liabilities		Assets	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Currency EUR	2,065	2,831	546	633
Currency USD	1,974	3,387	1,339	1,745
	4,039	6,218	1,885	2,378

Foreign currency sensitivity analysis

INA Group is mainly exposed to the currency risk related to change of HRK exchange rate against US dollar, due to the fact that crude oil and natural gas trading on the international market is mostly performed based on USD. In addition, the Group is exposed to fluctuations of the exchange rate of HRK against EUR, as a part of its debt portfolio is denominated in EUR.

The following table details the Company's sensitivity to a 10% weakening in HRK in 2014 (in 2013: 10%) against the relevant foreign currencies. The sensitivity rates used represent management's assessment of the usual change in foreign exchange rates. The sensitivity analysis includes monetary assets and liabilities in foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a change in foreign currency rates expressed as percentage. A negative number below indicates a decrease in profit where HRK changes against the relevant currency by the percentage specified above. For the same change of HRK versus the relevant currency in the opposite direction, there would be an equal and opposite impact on the profit.

INA Group

	Currency USD Impact		Currency EUR Impact	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Loss	(102)	(242)	(198)	(208)
	(102)	(242)	(198)	(208)

INA, d.d.

	Currency USD Impact		Currency EUR Impact	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Loss	(63)	(164)	(152)	(220)
	(63)	(164)	(152)	(220)

42. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Foreign currency sensitivity analysis (continued)

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

Interest rate risk management

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

As an energy company, the Group does not speculate on fluctuations in interest rates, and therefore primarily chooses floating interest rates. However, in certain instruments and certain macro environment, the selection of fixed interest rate can be more favourable.

INA, d.d. in accordance with the Risk Management and Hedging Policy for INA Group, can use interest rate swap transactions in order to manage the relative level of exposure to interest rate risk on cash flows related to borrowings with floating interest rates. As of 31 December 2014 there were no outstanding interest rate swap transactions.

Interest rate risk analysis

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

If the interest rates would be 200 basis points higher/lower and all other variables were held constant, the changes in interest expense of INA Group and INA, d.d. would be as presented below. Because of the decrease in total debt, the exposure to a potential change in the interest rates on profits has also decreased.

	INA Group		INA, d.d.	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Short-term interest expense change	54	59	49	55
Long-term interest expense change	13	39	12	37
Total change:	67	98	61	92

If interest rates would be 200 basis points higher, the profit of the INA Group as of 31 December 2014 would be decreased by HRK 67 million, while with a change of 50 basis points the decrease would amount to HRK 17 million, (2013: decrease by HRK 98 million had the interest rates been 200 basis points higher, and by HRK 25 million had the interest rates been 50 basis points higher), and in 2014 the profit of the INA, d.d. would decrease by HRK 61 million if interest rates had been 200 basis points higher, while the decrease would amount to HRK 15 million with a change of 50 basis points (2013: decrease by HRK 92 million had the interest rates been 200 basis points higher, and by HRK 23 million had the interest rates been 50 basis points higher). Equivalent decrease of interest rates would result in an increased profit in equal amounts.

42. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Other price risks

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

Equity price sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date.

If equity prices had been 10% higher:

- net profit for the year ended 31 December 2014 would have been unaffected as the equity investments are classified as available-for-sale; and
- other equity reserves of INA, d.d. would increase by HRK 41.5 million as a result of the changes in fair value of available-for-sale shares.

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

Credit risk management

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

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

INA Group transacts with a large number of counterparties from various industries and of various size. A portion of goods sold with deferred payment includes government institutions and customers owned by the state and local self-governments that do not provide any payment security instruments. Regarding other customers, the collaterals they provide are mainly debentures, being the most frequently used payment security instrument on the Croatian market, and bank guarantees and insurance of receivables is used as well, whereas from foreign customers are mostly obtained letters of credit, and to a lesser extent corporate guarantees and exceptionally bills of exchange.

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

42. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Liquidity risk management

Responsibility for liquidity risk management rests with the Management Board, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and credit facilities, by continuously monitoring of forecasted and actual cash flows and due dates of account receivables and payables.

The policy of INA Group is to ensure sufficient external funding sources in order to achieve the sufficient level of available frame credit lines ensuring the liquidity of INA Group as well as investment needs.

As of 31 December 2014 INA Group had contracted short term bank credit lines amounting to HRK 1.88 billion (CNB middle rate), excluding overdrafts and trade financing credit lines established with the purpose to finance the purchase of crude oil and oil products, and contracted long term credit lines amounting to HRK 5.35 billion (CNB middle rate).

Based on international practice, INA, d.d. has contracted short term credit facilities ("trade finance") with first class banking groups for financing crude oil and oil products purchase. As of 31 December 2014 INA Group had contracted short term credit facilities for financing crude oil and oil products purchase amounting to USD 1.26 billion. (2013: USD 1,186 million).

For details of the main external sources of funding for INA Group see Note 27 and 30.

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

42. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Liquidity risk management (continued)

Liquidity and interest risk tables

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

INA Group

	Less than 1 month	1 - 12 months	1 - 5 years	5+ years	Total
31 December 2014					
Non-interest bearing	1,793	594	37	21	2,445
Interest bearing	2,392	483	688	-	3,563
	4,185	1,077	725	21	6,008
31 December 2013					
Non-interest bearing	2,503	1,164	38	28	3,733
Interest bearing	2,357	1,014	2,009	-	5,380
	4,860	2,178	2,047	28	9,113

INA, d.d.

	Less than 1 month	1 - 12 months	1 - 5 years	5+ years	Total
31 December 2014					
Non-interest bearing	1,541	458	34	22	2,055
Interest bearing	2,390	308	678	-	3,376
	3,931	766	712	22	5,431
31 December 2013					
Non-interest bearing	2,024	1,021	29	29	3,103
Interest bearing	2,364	878	1,942	-	5,184
	4,388	1,899	1,971	29	8,287

Non-interest bearing liabilities of INA, d.d. due in a period of less than one month consist mainly of trade accounts payable in the amount of HRK 1,355 million in 2014 (2013: HRK 1,866 million).

Included in non-interest bearing liabilities of INA, d.d. due in a period of over five years are, liabilities to Government for sold flats and deferred income for sold flats.

Interest bearing liabilities include short-term and long-term borrowings.

42. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Fair value of financial instruments

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

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

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

Fair value measurements recognized in the statement of financial position

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

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

42. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Fair value of financial instruments (continued)

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

INA GROUP

	31 December 2014			Total
	Level 1	Level 2	Level 3	
<i>Financial assets at fair value</i>				
Financial assets available-for-sale*	416	-	-	416
Positive fair value of hedge commodity transactions	-	56	-	56
Positive fair value of derivatives	-	23	-	23
<i>Financial liabilities at fair value</i>				
Negative fair value of hedge commodity transactions	-	35	-	35
Negative fair value of derivatives	-	20	-	20
Embedded derivative financial liabilities	-	14	-	14

	31 December 2013			Total
	Level 1	Level 2	Level 3	
<i>Financial assets at fair value</i>				
Financial assets available-for-sale*	272	-	-	272
Positive fair value of derivatives	-	29	-	29
Positive fair value of hedge commodity transactions	-	26	-	26
Embedded derivative financial assets	-	5	-	5
<i>Financial liabilities at fair value</i>				
Negative fair value of hedge commodity transactions	-	54	-	54
Embedded derivative financial liabilities	-	18	-	18

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 (all amounts are presented in HRK millions)

42. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Fair value of financial instruments (continued)

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

INA, d.d.

	31 December 2014			
	Level 1	Level 2	Level 3	Total
<i>Financial assets at fair value</i>				
Financial assets available-for-sale*	416	-	-	416
Positive fair value of hedge commodity transactions	-	56	-	56
Positive fair value of derivatives	-	23	-	23
<i>Financial liabilities at fair value</i>				
Negative fair value of hedge commodity transactions	-	35	-	35
Negative fair value of derivatives	-	20	-	20
Embedded derivative financial liabilities	-	14	-	14
	31 December 2013			
	Level 1	Level 2	Level 3	Total
<i>Financial assets at fair value</i>				
Financial assets available-for-sale*	272	-	-	272
Positive fair value of derivatives	-	29	-	29
Positive fair value of hedge commodity transactions	-	26	-	26
<i>Financial liabilities at fair value</i>				
Negative fair value of hedge commodity transactions	-	54	-	54

* only assets available-for-sale at fair value are presented in tables above, the remaining equity instruments classified as available-for-sale in total amount of HRK 46 million are measured at cost (2013: HRK 58 million) and therefore not included in tables above-

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

42. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Fair value of financial instruments (continued)

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

(a) Financial instruments in level 1

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

(b) Financial instruments in level 2 and level 3

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

Specific valuation techniques used to value financial instruments include:

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

These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Derivative financial instruments

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

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

42. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)*Derivative financial instruments (continued)*

Managements consider that the carrying amounts of financial assets and financial liabilities recognised in the financial statements are approximate their fair values.

The fair values of embedded derivatives included in the statement of financial position and the net movement in the year, are as follows:

	INA Group		INA, d.d.	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Fair value at 1 January	(13)	(33)	-	-
Financial loss relating to the net change in fair value in the year	(1)	20	(14)	-
Fair value at 31 December	(14)	(13)	(14)	-

	INA Group		INA, d.d.	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Analysed as:				
Current portion	(9)	(5)	(9)	-
Non-current portion	(5)	(8)	(5)	-
	(14)	(13)	(14)	-

43. SUBSEQUENT EVENTS

Tax Inspection for the financial years 2010 and 2011

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

INA, d.d. has filed the Appeal against the Tax Resolution on 29 January 2015 within the prescribed deadline. On 6 February 2015 the Tax Authorities issued the Resolution on dismissal of INA d.d.'s appeal to the Tax Resolution as untimely due to procedural error. Consequently, INA, d.d. settled the tax and penalty interest liability determined in the Tax Resolution as at 10 February 2015. INA d.d. will file an Appeal to the Resolution on dismissal of the Appeal and shall undertake all available legal action in order to dispute the Resolution on untimely submission of Appeal.

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

Decision by the High Administrative Court

INA-Industrija nafte, d.d. received the verdict by the High Administrative Court accepting INA's lawsuit and annulling the Resolution of the Ministry of Economy, Labour and Entrepreneurship from 29 July 2011, which has revoked INA's license for mineral resources exploration in the exploration area "Drava".

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

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

INA - INDUSTRIJA NAFTE, d.d.

Notes to the financial statements (continued)

For the year ended 31 December 2014

(all amounts are presented in HRK millions)

44. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Management Board and authorised for issue on 18 March 2015.

Signed on behalf of the Company on 18 March 2015 by:

András Huszár



Executive Director for Finance

Zoltán Sándor Áldott



President of the Management Board

**REPORT
ON COMPANY AND INA-GROUP
STATUS
FOR JANUARY-DECEMBER 2014**

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INA Group and INA d.d. financial results (IFRS) Q1-Q4 2014

This report contains audited financial statements for the period ending 31 December 2014 as prepared by the management in accordance with the International Financial Reporting Standards.

INA Group financial results (IFRS)	INA, d.d.						INA GROUP					
	2013		2014		Change %		2013		2014		Change %	
	HRK mln	USD mln	HRK mln	USD mln	HRK	USD	HRK mln	USD mln	HRK	USD	HRK	USD
Net sales revenues	23,882	4,185	21,079	3,666	(11.7)	(12.4)	27,444	4,810	23,759	4,133	(13.4)	(14.1)
EBITDA reported ⁽¹⁾	4,096	718	2,160	376	(46.6)	(47.0)	3,726	653	2,580	449	(29.9)	(30.4)
EBITDA excl. special items ⁽²⁾	4,175	732	2,279	396	(45.4)	(45.8)	3,805	667	2,699	469	(29.1)	(29.6)
CCS EBITDA excl. special items							3,983	698	3,329	579	(16.4)	(17.1)
Operating profit/(loss)	(1,784)	(313)	108	19	n.a.	n.a.	(1,505)	(264)	(1,712)	(298)	10.2	9.4
Operating profit excl. special items ⁽²⁾	537	94	2,296	399	327.6	324.3	816	143	523	91	(35.9)	(36.4)
CCS Operating profit excl. special items							1,010	177	1,157	201	14.6	13.7
Net financial expenses	(183)	(32)	42	7	n.a.	n.a.	(311)	(55)	(622)	(108)	136.5	134.7
Net profit/loss for the period	(1,633)	(286)	631	110	n.a.	n.a.	(1,508)	(264)	(1,897)	(330)	25.8	24.8
Net profit for the period excl. special items ⁽²⁾	828	145	2,825	491	241.2	238.6	953	167	344	60	(63.9)	(64.2)
Operating cash flow	4,102	719	3,634	632	(30.1)	(30.6)	4,576	802	3,859	671	(14.8)	(15.4)
Earnings per share												
Basic and diluted earnings per share (kunas per share)	(163.3)	(28.6)	63.1	11.0	n.a.	n.a.	(150.8)	(26.4)	(189.7)	(33.0)	25.8	24.8
Net debt	4,592	805	2,870	499	(37.5)	(38.0)	4,761	834	2,991	520	(37)	(38)
Net gearing	25.62		20.01				26.99		20.41			
CAPEX total	1,894	332	1,617	281	(14.6)	(15.3)	2,013	353	1,691	294.1	(16.0)	(16.7)

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

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

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

Restatement of comparable previous periods was made – see on page 10

INA Group CCS operating profit excluding special items in 2014 amounted to HRK 1,157 million, a 15% increase compared to 2013. Reported operating results were impacted by further impairment of Syrian assets of HRK 1.6 billion, not having direct cash effect but applied in accordance with previous good business practice, as well as a significant Brent drop and HRK 395 million impairment in the Downstream segment. INA Group CCS EBITDA excluding special items amounted to HRK 3.3 billion, which is a 16% decrease compared to 2013. Negative regulatory decisions had a significant and ongoing negative effect on Upstream operations. The combined effect of forced gas sale, regulated gas price reduction and doubled royalty as well as another subsequent refinery tax obligation on the result reached almost HRK 1.1 billion. Consequently realized hydrocarbon prices decreased and were also influenced by considerable Brent price drop in the second half of the year. Constant efforts of Exploration & Production in compensating the natural decline have resulted in crude oil production increase, first time in more than a decade, with a 5% improvement compared to 2013. This increase was however not enough to compensate for the drop in gas production of 8%, bringing the total production to a 4% decrease. Furthermore Upstream hydrocarbon production rose significantly by 5 mboepd in the last quarter partly due successful development activities both on- and off- shore.

Refining & Marketing made efforts to increase productivity and market position of INA but the performance was impacted by sustained tight European refining macro environment and the impact of prolonged economic slowdown in Croatia and INA's other key markets resulting in lower sales volumes. In spite of these negative impacts the retail sales domestically remained rather stable with a decrease of 2%. At the same time the Company continues with operations optimization with the development of new retail operating model that ensures more efficient operations.

Operating cash flow reached the level of HRK 3,859 million in 2014, a drop of 16%. In order to compensate the effect of adverse regulatory changes, measures have been made resulting in the further improvement of already stable financial position, decreasing net debt by further 37% to the level of HRK 2,991 million and net gearing to 20.4%, compared to 27.0% at the end of 2013.

- ▶ **Exploration and Production:** In Q1-Q4 2014, EBITDA reached HRK 3,739 million, which is lower by HRK 1,088 million than in the same period last year. In 2014 the regulatory environment changed significantly which had a negative impact on Upstream business. Royalty rate was increased from 5% to 10% starting from March 26, 2014 and the regulated price of natural gas to households was reduced from 2.2 to 1.7 HRK/cm, resulting in a much lower average realized hydrocarbon price. Besides, the significant Brent drop down in H2 2014 had additional negative effect on the result. Additionally, the inventory transfer in 2013 had a one-off positive effect on previous year results. Finally, despite some major achievements as a result of continuation of investment activities, the Group faced production decline in offshore and onshore production of natural gas as well as condensate production in comparison with the base period. On the positive side INA increased its crude oil production by 5% in 2014 compared to the base period.
- ▶ **Refining and Marketing (including Retail):** In 2014 the Refining and Marketing segment's reported 'clean' CCS-based EBITDA amounted to HRK (554) million and was below 2013 levels. Although total sales volumes decreased, the sales structure improved (i.e. motor fuel share increased, while fuel oil share decreased). The fire in the Sisak Delayed Coker Unit boiler in 2013 led to further availability problems in the same boiler in 2014 and production upsets on FCC units in both refineries in 2014 resulted in less favourable production yields. Refining and Marketing continued its disciplined cost control efforts, on-demand operation, and reduced the reaction time in response to market changes.
- ▶ **Corporate and Other¹:** EBITDA of the segment increased by HRK 439 million from HRK (274) million in Q1-Q4 2013 to HRK 165 million in Q1-Q4 2014, mainly because of higher Croscos contribution. Higher Croscos revenues are a result of better capacities utilization, higher well services and workover rigs revenues. This was backed with lower maintenance, transportation costs and freight forwarding services than in 2013.
- ▶ **Investment** level of HRK 1,691 million is 16% lower than in 2013, but having in mind the regulatory changes not stimulating the investment it remains as strong figure, focused mainly in Croatia, primarily in the Upstream segment.

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

Management discussion

Exploration and Production*

Segment IFRS results	in millions	INA, d.d.					
		2013		2014		Change %	
		HRK mln	USD mln	HRK mln	USD mln	HRK	USD
Net sales revenues		6,948	1,218	5,654	983	(18.6)	(19.2)
EBITDA reported		5,444	954	3,806	662	(30.1)	(30.6)
EBITDA excl. special items**		5,444	954	3,806	662	(30.1)	(30.6)
Operating profit reported		1,188	208	3,027	526	154.8	152.9
Operating profit excl. special items**		2,692	472	4,631	805	72.0	70.7
CAPEX including one-off exploration Opex		1,285	225	1,102	192	(14.3)	(14.9)

Segment IFRS results	in millions	INA GROUP					
		2013		2014		Change %	
		HRK mln	USD mln	HRK mln	USD mln	HRK	USD
Net sales revenues		9,325	1,634	6,732	1,171	(27.8)	(28.4)
EBITDA reported		4,827	846	3,739	650	(22.5)	(23.1)
EBITDA excl. special items**		4,827	846	3,739	650	(22.5)	(23.1)
Operating profit reported		1,489	261	961	167	(35.5)	(35.9)
Operating profit excl. special items**		2,993	525	2,565	446	(14.3)	(14.9)
CAPEX including one-off exploration Opex		1,396	245	1,048	182	(25.0)	(25.5)

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

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

Restatement of comparable previous periods was made – see on page 10

Hydrocarbon production	2013	2014	Ch. %
Crude oil production (boe/d)*	11,617	12,142	4.5
Croatia	8,608	8,931	3.7
Egypt	1,881	2,034	8.1
Angola	1,128	1,177	4.4
Natural gas production (boe/d)	26,198	24,166	(7.8)
Croatia - offshore	11,897	11,136	(6.4)
Croatia - onshore	14,301	13,030	(8.9)
Condensate (boe/d)	2,365	2,097	(11.3)
Croatia	2,365	2,097	(11.3)
Total hydrocarbon production (boe/d)	40,180	38,405	(4.4)

Average realised hydrocarbon price*	2013	2014	Ch. %
Total hydrocarbon price (USD/boe)*	82	69	(16.7)
Natural gas trading - mln cm	2013	2014	Ch. %
Natural gas imports	774	107	(86.1)
Total natural gas sales - domestic market	2,228	1,718	(22.9)

* Calculated based on total external sales revenue including natural gas selling price as well.

In Q1-Q4 2014, EBITDA reached HRK 3,739 million, which is 23% lower than last year. Average Brent price decrease of 9% coupled with significant adverse changes in the regulatory environment, had a negative impact on the Upstream segment result through lower realized prices. Forced gas inventory sale negatively impacted the result by HRK (270) million, while the reduction in the regulated gas price created additional HRK (260) million difference compared to the base period. Furthermore the effect of doubled royalty reached a negative impact of HRK (223) million, totaling HRK (753) million of negative effect in 2014. Additionally, the inventory transfer in 2013 had one off positive effect on the previous year results. Finally, overall production volumes decreased by 4% despite the increase in crude oil production, both domestic and international.

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

Total **natural gas** production in Q1-Q4 2014 was 7.8% lower than in Q1-Q4 2013,

- The year-on-year decrease on off-shore natural gas production mainly derives from water cuts and higher restitution on Annamaria offshore field. Natural decline was somewhat compensated by start up of production on Izabela field.
- Onshore-natural gas production was impacted by more complex and longer annual overhaul on main facilities GTP Molve and Ethane plant aggravated by natural decline.

Crude oil production increased in Q1-Q4 2014 by 5% compared to Q1-Q4 2013:

- The natural decline of domestic crude oil production was more than offset with performed workovers, well optimisation and additional production from Hrastilnica.
- Lower domestic condensate production was a consequence of more complex and longer annual overhaul on main facilities GTP Molve and Ethane plant and natural decline.
- Egyptian oil production in Q1-Q4 2014 was higher by 8.1% than Q1-Q4 2013 as a result of higher production on North Bahariya after an aggressive drilling campaign and performed workover operations and of higher production on East Yidma since the production share changed from 29% to 58%.
- Angolan 2014 crude oil production in yearly comparison showed a 4.4% decrease due to natural decline.

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

Exploration and Production capital expenditures

Exploration and Production segment's CAPEX in period 2014 amounted to HRK 1,048 million. Capital investments in Croatia amounted HRK 899 million and capital investments abroad HRK 149 million. In comparison with 2013 capital investments are lower in total for HRK 348 million or 25%. Decreased investments level is mainly result of lower offshore development, lower development activities in Angola and Egypt and finishing of exploration activities in Egypt in 2013.

Refining and Marketing, including Retail*

Segment IFRS results in millions	INA, d.d.					
	2013		2014		Change %	
	HRK mln	USD mln	HRK mln	USD mln	HRK	USD
Revenues	19,464	3,411	17,600	3,061	(9.6)	(10.3)
EBITDA reported	(451)	(79)	(1,271)	(221)	181.8	179.7
EBITDA excl. special items**	(372)	(65)	(1,152)	(200)	209.7	207.3
Operating profit/(loss) reported	(2,013)	(353)	(2,426)	(422)	20.5	19.6
Operating profit/(loss) excl. special items**	(1,196)	(210)	(1,862)	(324)	55.7	54.5
CAPEX and investments (w/o acquisition)	544	95	473	82	(13.1)	(13.7)

Segment IFRS results in millions	INA GROUP					
	2013		2014		Change %	
	HRK mln	USD mln	HRK mln	USD mln	HRK	USD
Revenues	20,137	3,529	18,222	3,169	(9.5)	(10.2)
EBITDA reported	(427)	(75)	(1,303)	(227)	205.2	202.8
EBITDA excl. special items**	(348)	(61)	(1,184)	(206)	240.2	237.7
CCS-based R&M EBITDA**	(170)	(30)	(554)	(96)	225.9	223.4
Operating profit/(loss) reported	(2,068)	(362)	(2,489)	(433)	20.4	19.4
Operating profit/(loss) excl. special items**	(1,251)	(219)	(1,925)	(335)	53.9	52.7
CCS-based R&M operating loss***	(1,057)	(185)	(1,291)	(225)	22.1	21.2
CAPEX and investments (w/o acquisition)	545	96	470	82	(13.8)	(14.4)

*Refers to Refining & Marketing including Retail INA. d.d. and following subsidiaries: Maziva Zagreb, InterIna Ljubljana, INA BH Sarajevo, Holdina Sarajevo, INA Hungary, INA Crna Gora, INA Beograd, INA Kosovo

** The 2014 EBIT performance includes HRK 564 million negative special items
Restatement of comparable previous periods was made – see on page 10

Refinery processing (kt)	2013	2014	Ch. %
Domestic crude oil	433	394	(9.0)
Imported crude oil	2,427	1,880	(22.6)
Condensate	96	102	6.0
Other feedstock	750	749	(0.2)
Total refinery throughput	3,707	3,125	(15.7)

Refinery production (kt)	2013	2014	Ch. %
LPG	209	190	(9.1)
Motor gasoline	1,068	824	(22.9)
Diesel	1,268	1,022	(19.4)
Heating oil	193	107	(44.3)
Kerosene	109	107	(2.1)
Naphtha	27	33	20.8
Fuel oil	419	358	(14.7)
Bitumen	38	3	(93.0)
Other products*	(56)	86	n.a.
Total	3,274	2,728	(16.7)
Refinery loss	23	22	(0.8)
Own consumption	410	374	(8.7)
Total refinery production	3,707	3,125	(15.7)

*Other products = Benzene-rich cut, liquid sulphur, coke, motor oils, Ind, lubricants, base oils, spindle oil, waxes, blend. gas oil "M", atmp. residue, intermediaries and other. Negative values in production can occur as a result of higher volume of semifinished products used in processing than produced in certain period.

Refined product sales by country (kt)	2013	2014	Ch. %
Croatia	1,877	1,756	(6.4)
B&H	509	510	0.1
Slovenia	237	151	(36.3)
Other markets	844	867	2.7
Total	3,467	3,284	(5.3)

Refined product sales by product (kt)
LPG
Motor gasoline
Diesel
Heating oil
Kerosene
Naphtha
Fuel oil
Bitumen
Other products*
Total
o/w Retail segment sales

	2013	2014	Ch. %
	231	214	(7.7)
	955	844	(11.6)
	1,394	1,415	1.5
	164	146	(10.9)
	124	128	3.5
	30	37	24.6
	418	366	(12.3)
	57	40	(29.9)
	95	95	0.1
	3,467	3,284	(5.3)
	1,019	994	(2.5)

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

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

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

However, (1) although total sales volumes decreased, sales structure improved, i.e. motor fuel share increased and fuel oil share decreased, (2) Brent-Ural spread was more favorable and (3) Retail fuel unit margin was higher, which was enabled by free pricing of fuel in Croatia from 20 February 2014.

A decline in estimated motor fuel demand in Croatia as well as weaker purchasing power put pressure on sales resulting in lower transfers to own retail and sales volumes to end users. Export sales volumes primarily on Slovenian and Albanian markets were lower primarily due to lower levels of processing and partly due to lower sales margins. Additionally 2013 performance was positively influenced by the change in inventory evaluation methodology HRK 216 mln and revenues from insurance and contractual penalties HRK 85 mln.

Retail operations

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

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

Capital expenditures

Capital expenditures amounted to HRK 470 million in 2014, which is HRK 75 million lower than the investments in the same period of the 2013. R&M capital expenditures in 2014 amounted to HRK 314 million. CAPEX utilization was lower due to achieved savings in contracting, projects postponements and delays in contracts realization. An important project in Refining and Marketing, the Turnaround in Refinery Sisak (which included the installation of new coke chambers in the Delayed Coker Unit) is finished in Q4. Many projects, that are still on-going, continued in 2014 in regards to improving the logistics infrastructure as well.

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

Corporate Functions

Segment IFRS results	in millions
Revenues	
EBITDA reported	
EBITDA excl. special items*	
Operating profit/(loss) reported	
Operating profit/(loss) excl. special items*	
CAPEX and investments (w/o acquisition)	

INA, d.d.					
2013		2014		Change %	
HRK mln	USD mln	HRK mln	USD mln	HRK	USD
84	15	54	9	(35.7)	(36.2)
(498)	(87)	(410)	(71)	(17.7)	(18.3)
(498)	(87)	(410)	(71)	(17.7)	(18.3)
(592)	(104)	(549)	(95)	(7.3)	(8.0)
(592)	(104)	(529)	(92)	(10.6)	(11.3)
67	12	44	8	(34.3)	(34.8)

Segment IFRS results	in millions
Revenues	
EBITDA reported	
EBITDA excl. special items*	
Operating profit/(loss) reported	
Operating profit/(loss) excl. special items*	
CAPEX and investments (w/o acquisition)	

INA GROUP					
2013		2014		Change %	
HRK mln	USD mln	HRK mln	USD mln	HRK	USD
2,135	374	2,665	464	24.8	23.9
(274)	(48)	165	29	n.a.	n.a.
(274)	(48)	165	29	n.a.	n.a.
(559)	(98)	(184)	(32)	(67.1)	(67.3)
(559)	(98)	(117)	(20)	(79.1)	(79.2)
72	13	172	30	138.9	137.1

*The 2014 EBIT performance includes HRK 67 million negative special items
Restatement of comparable previous periods was made – see on page 10

EBITDA of the segment increased by HRK 439 million from HRK (274) million in Q1-Q4 2013 to HRK 165 million in Q1-Q4 2014, mainly because of higher Croscos contribution. Higher Croscos revenues are a result of better capacities utilization, higher well services and workover rigs revenues. This was backed with lower maintenance, transportation costs and freight forwarding services than in 2013.

Financial overview

Income statement – INA Group

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

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

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

Within other **operating costs** realized in 2014:

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

Staff costs in the amount HRK 2,467 million were 2% higher compared to 2013. Staff cost represents cost of net salaries in the amount of HRK 1,250 million, cost of employee income tax in the amount of HRK 542 million, tax on payroll in the amount of HRK 319 million, severance payments for employees whose employment contracts are terminated due to business reasons in amount of HRK 100 million and other payroll related costs in the amount of HRK 256 million for the year ended 31 December 2014. For the year ended 31 December 2013 staff cost includes cost of net salaries in the amount of HRK 1.273 million, cost of employee income tax in the amount HRK 546 million, tax on payroll in the amount HRK 300 million, severance payments for employees whose employment contracts are terminated due to business reasons in amount of HRK 37 million and other payroll related costs in the amount HRK 259 million.

Deferred tax in 2014 amounted to HRK 437 million compared to HRK 308 million in 2013. Tax costs and deferred taxes during the interim period are calculated on the basis of actual results and the profit tax rate, 20% for the periods ended 31 December 2014 and 31 December 2013.

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

- Net foreign exchange loss was HRK 247 million in 2014, compared to HRK 0.1 million net foreign exchange received recorded in 2013.
- Interest payable amounted to HRK 292 million and interest received HRK 19 million in 2014, compared to interest payable of HRK 250 million and HRK 17 million interests received in 2013.
- Other financial net expenses amounted to HRK 102 mln, compared to financial net expenses of HRK 61 mln in 2013.

Income statement – INA d.d.

Total sales revenues in 2014 amounted HRK 21,079 million, 12% lower compared to 2013 level, primarily triggered by lower natural gas sales deriving from lower production due to natural decline and lower prices reflecting direct sales to HEP, unfavorable external environment which reflected in lower average crack spread and lower sales volumes of oil products.

Costs of raw materials and consumables were 18% lower and amounted to HRK 11,624 million, as processing of other raw material volumes was lower.

Costs of goods sold recorded increase of 22%, and amounted HRK 2,704 million, resulting from higher import of crude oil products compared to 2013.

Within the **other operating costs** realized 2014:

- Other material costs were higher by 12% and amounted to HRK 1,960 million.
- Service costs in the amount of HRK 803 million recorded an increase of 22% mainly due to ENI tax related to 2013 which had neutral impact on 2014 result due to release of related provision.
- Depreciation was 6% lower and amounted to HRK 1,980 million mainly due to lower Syrian and R&M depreciation.
- Adjustments and provisions had a positive effect of HRK 3,707 million compared to 2013 due to reversal of impairment of receivables from Prirodni plin which was merged to INA d.d. on November 3, 2014. This almost completely offset negative effect of additional impairment of Syrian assets and refineries.

Staff costs in the amount HRK 1,488 million were 1% higher than 2013.

Net financial income in the amount of HRK 42 million were recorded in 2014, compared to the HRK 183 million net financial expenses in 2013.

Prirodni Plin

Prirodni plin d.d. was merged into INA d.d. in November 2014 due to its activity being focused mostly on marketing of domestic produced gas starting from November 2014.

Restatement

*A change has been made in recording of „Suppliers/buyers forex gain“ and “reversal of impairment before insolvency deal” (originally recorded in „Other operating income“), which are now recorded in „Financial income“. On the other hand „Forex loss on suppliers/buyers“ originally recorded in „Other nonmaterial expenses“, and “realized fees of bank charge accrued long term loan” originally recorded in “impairment and charges” are now recorded in „Financial expenditures”.

Crosco Group reclassification

Starting from 1 January 2014, INA Group has revised its operational segments to integrate all corporate support and other service related activities in Corporate and Other segment. As a consequence, Crosco Group has been reclassified to Corporate and Other segment from Exploration & Production. Comparative periods have been restated accordingly.

Special items

In addition to international accounting standards and international reporting standards and regulatory requests the company discloses special items to achieve higher level of transparency and to provide better understanding of the usual business operations. Business events not occurring regularly and having significant effect on operations and results are considered as special items. At the beginning of 2013 INA has adopted the materiality level for the special items in the amount of EUR 10 million or above. Furthermore, in accordance with adopted accounting policies and IFRS 36 – Impairment of Assets, INA performs impairment testing at the end of each reporting period.

Intersegment eliminations

Intersegment elimination line within the operating results is used to provide segmental results as International Accounting Standards requests, guided with the transparency of presented information which needs to fulfill the highest requests of consistency and reliability. For this purpose and for purpose of having the segmental results presenting fair market relations between the segments, which are fully aligned with on demand operations of the Refining and Marketing including Retail segment, parity of internal transfer between E&P and R&M including retail is based on delivered quantities. This line shows the effect on operating profit of the change in the amount of unrealized profit deferred in respect of transfers between segments. Unrealized profits arise where the item transferred is held in inventory by the receiving segment and a third party sale takes place only in a subsequent quarter. For segmental reporting purposes the deliverer segment records a profit immediately at the point of transfer. However, at the company level profit is only reported when the related third party sale has taken place. Intersegment EBITDA effect on E&P and R&M including retail results in 2014 is HRK 21 million which is lower compared to HRK 435 million in 2013 due to different operational mode of Sisak refinery.

Balance sheet – INA Group

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

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

In the period ended 31 December 2014, INA Group invested HRK 1,649 million in property, plant and equipment. Decommissioning costs decreased the value of assets by HRK 173 million. Foreign exchange revaluation increased net book value in amount of HRK 489 million. The effect of depreciation reduced net book value of property, plant and equipment in amount of HRK 2,097 million. In the absence of parameters needed for unit-cost production depreciation calculation method due to Force Majeure, straight-line depreciation method for surface assets in Syria was applied starting from 1 January 2013, in order to fairly reflect the amortization of the equipment. Depreciation impact of surface assets in Syria in 2014 was HRK 306 million. Impairment of assets are HRK 1,618 million. Impairment of negative wells reduced value of assets in amount of HRK 166 million. Disposals of tangible assets in amount of HRK 29 million. Transfer from strategic inventories increased a value of tangible assets by HRK 5 million. Furthermore, transfer to merchandizing goods decreased a value of tangible assets by HRK 1 million.

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

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

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

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

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

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

Balance sheet – INA d.d.

Total assets of INA, d.d., as at 31 December 2014 amounted to HRK 21,193 million and were 16% lower compared to 31 December 2013.

Property, plant and equipment amounted to HRK 12,564 million and were lower 12% as 31 December 2013.

Trade receivables outside INA-Group amounted to HRK 1,399 million and were 8% lower compared to 31 December 2013.

Total liabilities amounted to HRK 9,717 million and were 18% lower compared to 31 December 2013.

Net indebtedness of INA, d.d., amounted to HRK 2,870 million as at 31 December 2014 what is 38% lower compared to 31 December 2013. **Gearing ratio** decreased from 25.6% as at 31 December 2013 to 20.0% as at 31 December 2014.

Trade payables decreased by 41% to HRK 1,256 million, as a result of lower liabilities for imported crude oil and natural gas.

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

Cash flow – INA Group

The **operating cash-flow before changes in working capital** amounted to HRK 2,507 million in Q1-Q4 2014, representing a decrease of HRK 1,175 million, or 32%, compared to Q1-Q4 2013, mainly as a result of lower EBITDA.

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

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

Net outflows in investing activities amounted to HRK 1,465 million, in comparison with HRK 2,136 million of outflows in Q1-Q4 2013.

Cash flow – INA d.d.

The **operating cash-flow before changes in working capital** amounted to HRK 2,774 million in 2014, decrease of 30% compared to the same period last year, mainly as result of lower EBITDA.

Changes in working capital affected the operating cash flow negatively by HRK 946 million, primarily due to:

- Decrease value of inventories by HRK 766 million
- Decrease in receivables by HRK 1,090 million,
- Payables decreased by HRK 910 million.

Taxes paid influenced the operating cash flow in the amount of HRK 86 million. All the above factors resulted in HRK 3,634 million net outflows from operating activities generated by INA d.d. in 2014.

Financial instruments and risk management

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

a) Market risk

Commodity price risk management (price risk)

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

Foreign currency risk management

Many Group transactions are priced and denominated in foreign currency and thus the Group is exposed to currency risk. The Group has net long USD and EUR, and net short HRK exposure of operative cash flow position. The Group may use cross currency swaps to adjust the currency mix of the debt portfolio. As of December 31, 2014, there were no open cross currency swap transactions.

Interest rate risk management

INA Group companies use borrowed funds at both fixed and floating interest rates consequently the Group is exposed to the interest rate risk. The Group does not speculate on interest rate developments and primarily chooses floating rates. The Group may use interest rate swap to manage interest rate risk. As of December 31, 2014 there were no open interest rate swap transactions.

Other price risk

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

b) Credit risk

Sales of goods and services with deferred payment create credit risk, a risk of non-payment and risk that the counterparty will default on its contractual obligations. According to existing "Customer Credit Management Procedure" creditworthiness and risk in dealing with customers is estimated based on internal credit assessment model as well as using the services of credit rating agencies. There is no significant credit risk exposure of INA Group that is not covered with collateral, other than those to the institutions and entities controlled by the state and the local government, and exposure toward customers under certain concession agreements abroad. In order to minimize credit risk INA is using credit risk insurance services. INA to a limited extent is also using services of agencies for "out-of-court" collection of receivables.

c) Liquidity risk

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

As of December 31, 2014, the INA Group had contracted short-term bank lines amounting to HRK 1.88 bln, excluding overdrafts and trade financing credit lines established with the purpose to finance the purchase of crude oil and oil products, and long-term credit lines amounting to HRK 5.35 bln.

Investments in subsidiaries

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

Name of company	Activity	Shareholding	
		31 December 2014	31 December 2013
Oilfield services			
*Crosco Naftni Servisi d.o.o. Zagreb	Oilfield services	100%	100%
Crosco International Limited, Guernsey	Oilfield services	100%	100%
Crosco B.V. Amsterdam, Netherlands	Oilfield services	100%	100%
Nordic Shipping Ltd, Marshall Islands	Platform ownership	100%	100%
Sea Horse Shipping Inc, Marshall Islands	Platform ownership	100%	100%
Crosco International d.o.o. Slovenia	Oilfield services	100%	100%
Rotary Zrt., Hungary	Oilfield services	100%	100%
Crosco S.A. DE C.V. Monterrey, Mexico	Oilfield services	99.90%	99.90%
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%
Auxiliary services			
*STSI integrirani tehnički servisi d.o.o. Zagreb	Technical services	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%	100%
Production and trading			
*INA Maziva d.o.o., Zagreb	Production and lubricants trading	100%	100%
Trading and finance			
*Interina d.o.o. Ljubljana, Slovenia	Foreign trading	100%	100%
*INA BH d.d. Sarajevo, Bosnia and Herzegovina	Foreign trading	100%	100%
*Interina d.o.o. Skopje, Macedonia (in bankruptcy)	Foreign trading	-	100%
*Holdina (Guernsey) Ltd, Guernsey (in liquidation)	Foreign trading	100%	100%
*Holdina d.o.o. Sarajevo, B&H	Foreign trading	100%	100%
*INA d.o.o. Beograd, Serbia	Foreign trading	100%	100%
*INA Kosovo d.o.o. Priština	Foreign trading	100%	100%
*Adriagas S.r.l. Milan, Italy	Pipeline project company	100%	100%
*Croplin d.o.o. Zagreb	Pipeline project company	100%	100%
*INA Crna Gora d.o.o. Podgorica, Montenegro	Foreign trading	100%	100%
*Prirodni plin d.o.o. Zagreb – merged in INA Nov 3, 2014	Trading	-	100%
*INA BL d.o.o. Banja Luka	Trading	100%	100%
*Petrol d.d. Jurdani	Trading	83.26%	83.26%
*INA-Osijek – Petrol d.d.	Trading	100%	100%
*Polybit d.o.o. Rijeka (in liquidation)	Oil production and trading	100%	100%
INA Maloprodajni servisi d.o.o.	Trading	100%	100%

Related party transactions – INA Group

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

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

During the 2014 and 2013, INA Group entered into the following trading transactions with the following related parties.

INA-Group HRK mln	Amounts owed from related parties	
	31 Dec 2014	31 Dec 2014
Companies available for sale		
JANAF d.d. Zagreb	-	-
Strategic partner		
MOL Plc	77	56
Companies controlled by strategic partner		
Tifon d.o.o.	51	1
Energopetrol d.d.	41	-
Kalegran Ltd.	22	-
MOL SLOVENIJA d.o.o.	3	7
Slovnaft, a.s.	-	6

INA-Group HRK mln	Sales of goods		Purchase of goods	
	31 Dec 2014		31 Dec 2014	
Companies available for sale				
JANAF d.d. Zagreb	3		29	
Strategic partner				
MOL Plc	649		756	
Companies controlled by strategic partner				
Tifon d.o.o.	733		28	
Energopetrol d.d.	341		-	
Kalegran Ltd.	135		3	
Mol Commodity Trading Kft.	109		5	
MOL SLOVENIJA d.o.o.	92		81	
Slovnaft, a.s.	26		123	
TVK Ingatlankezelo Kft.	10		-	

Related party transactions – INA, d.d.

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

Details of transactions between INA, d.d. and the INA d.d. companies and other related parties during the 2014 and 2013 are disclosed below:

INA, d.d. HRK mln	Amounts owed from related parties	
	31 Dec 2014	Amounts owed to related parties 31 Dec 2014
Subsidiaries		
Osijek Petrol d.d.	14	1
STSI d.o.o. Zagreb	8	233
INA Beograd d.o.o. Beograd	8	-
INA Crma Gora d.o.o. Podgorica	7	-
Croscoc d.o.o.	5	88
Interina d.o.o. Ljubljana	1	-
TOP Računovodstvo Servisi d.o.o.	1	3
INA Maziva d.o.o.	1	6
Prirodni plin d.o.o. Zagreb (do studenog 2014.)	-	-
Holdina Sarajevo	128	34
ITR d.o.o. Zagreb	-	-
Companies available for sale		
JANAF d.d. Zagreb	1	-
Strategic partner		
MOL Nyrt	43	47
Companies controlled by strategic partner		
Tifon d.o.o.	51	1
MOL SLOVENIJA d.o.o.	3	-
Energopetrol d.d.	1	-
Slovnaft, a.s.	-	6

INA, d.d. HRK mln	Sales of goods		Purchase of goods	
	31 Dec 2014	31 Dec 2014	31 Dec 2014	31 Dec 2014
Related companies				
Prirodni plin d.o.o. Zagreb (until November 2014)	3,523		568	
Holdina Sarajevo	2,426		-	
Osijek Petrol d.d.	92		-	
INA Crma Gora d.o.o. Podgorica	88		-	
STSI d.o.o. Zagreb	25		617	
Croscoc d.o.o.	21		353	
Interina d.o.o. Ljubljana	13		-	
INA Maziva d.o.o.	4		56	
TOP Računovodstvo Servisi d.o.o.	7		48	
ITR d.o.o. Zagreb	1		5	
Companies available for sale				
JANAF d.d. Zagreb	3		29	
Strategic partner				
MOL Plc	464		539	
Companies controlled by strategic partner				
Tifon d.o.o.	731		28	
MOL Commodity Trading Kft.	109		5	
MOL SLOVENIJA d.o.o.	89		-	
Slovnaft a.s.	26		123	
Energopetrol d.d.	22		-	

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

	INA, d.d.			INA GROUP		
	2013	2014	Ch. %	2013	2014	Ch. %
	HRK mln	HRK mln		HRK mln	HRK mln	
Sales						
Exploration & Production	6,948	5,654	(19)	9,325	6,732	(28)
Refining & Marketing including Retail	19,464	17,600	(10)	20,137	18,222	(10)
Corporate and Other	84	54	(36)	2,135	2,665	25
Inter-segment revenue	(2,614)	(2,229)	(15)	(4,153)	(3,860)	(7)
Sales	23,882	21,079	(12)	27,444	23,759	(13)
Operating expenses, net other income from operating activities						
Exploration & Production	(5,760)	(2,627)	(54)	(7,836)	(5,771)	(26)
Refining & Marketing including Retail	(21,477)	(20,026)	(7)	(22,205)	(20,711)	(7)
Corporate and Other	(676)	(603)	(11)	(2,694)	(2,849)	6
Inter-segment eliminations	2,247	2,285	2	3,786	3,860	2
Expenses	(25,666)	(20,971)	(18)	(28,949)	(25,471)	(12)
Profit/(loss) from operations						
Exploration & Production	1,188	3,027	155	1,489	961	(35)
Refining & Marketing including Retail	(2,013)	(2,426)	21	(2,068)	(2,489)	20
Corporate and Other	(592)	(549)	(7)	(559)	(184)	(67)
Inter-segment eliminations	(367)	56	n.a.	(367)	-	n.a.
Profit from operations	(1,784)	108	n.a.	(1,505)	(1,712)	14
Share in the profit of associate companies						
Net loss from financial activities	(183)	42	n.a.	(311)	(622)	100
Profit before taxation	(1,967)	150	n.a.	(1,816)	(2,334)	29
Income tax expense	334	481	44	308	437	42
Profit for the year	(1,633)	631	n.a.	(1,508)	(1,897)	26
Depreciation						
Exploration & Production	1,405	1,356	(3)	1,400	1,344	(4)
Refining & Marketing including Retail	629	554	(12)	645	570	(12)
Corporate and Other	67	70	4	216	218	1
Total	2,101	1,980	(6)	2,261	2,132	(6)
EBITDA*						
Exploration & Production	5,444	3,806	(30)	4,827	3,739	(23)
Refining & Marketing including Retail	(451)	(1,271)	182	(427)	(1,303)	205
Corporate and Other	(498)	(410)	(18)	(274)	165	n.a.
Inter-segment eliminations	(399)	35	n.a.	(400)	(21)	(95)
Total	4,096	2,160	(47)	3,726	2,580	(31)
EBIT wo special items						
Exploration & Production	5,444	3,806	(30)	2,993	2,565	(14)
Refining & Marketing including Retail	(372)	(1,152)	210	(1,251)	(1,925)	54
Corporate and Other	(498)	(410)	(18)	(559)	(117)	(79)
Inter-segment eliminations	(399)	35	n.a.	(367)	-	n.a.
Total	4,175	2,279	(45)	816	523	(36)

* EBITDA = EBIT + Depreciation + Impairment + Provisions

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

Condensed Consolidated Income Statement INA Group and INA d.d. for the period ended 31 December 2013 and 2014 (in HRK millions)

	INA, d.d.			INA GROUP		
	2013 HRK mln	2014 HRK mln	Ch. %	2013 HRK mln	2014 HRK mln	Ch. %
Sales revenue						
a) domestic	15,558	13,394	(14)	17,531	14,187	(19)
b) exports	8,324	7,685	(8)	9,913	9,572	(3)
Total sales revenue	23,882	21,079	(12)	27,444	23,759	(13)
Income from own consumption of products and services	4	4	0	361	459	27
Other operating income	480	361	(25)	488	277	(43)
Total operating income	24,366	21,444	(12)	28,293	24,495	(13)
Changes in inventories of finished products and work in progress	(71)	(705)	893	(91)	(935)	927
Cost of raw materials and consumables	(14,105)	(11,624)	(18)	(13,727)	(11,353)	(17)
Depreciation and amortization	(2,101)	(1,980)	(6)	(2,261)	(2,132)	(6)
Other material costs	(1,755)	(1,960)	12	(1,983)	(2,455)	24
Service costs	(657)	(803)	22	(815)	(1,000)	23
Staff costs	(1,472)	(1,488)	1	(2,415)	(2,467)	2
Cost of other goods sold	(2,210)	(2,704)	22	(5,536)	(3,705)	(33)
Impairment and charges (net)	(3,633)	7	n.a.	(2,769)	(2,052)	(26)
Provisions for charges and risks (net)	(146)	(79)	(46)	(201)	(108)	(46)
Operating expenses	(26,150)	(21,336)	(18)	(29,798)	(26,207)	(12)
Profit/(loss) from operations	(1,784)	108	n.a.	(1,505)	(1,712)	14
Share in the profit of associated companies	-	-	0	-	-	0
Finance income	412	807	96	213	234	10
Finance costs	(595)	(765)	29	(524)	(856)	63
Net loss from financial activities	(183)	42	n.a.	(311)	(622)	100
Profit/(loss) before tax	(1,967)	150	n.a.	(1,816)	(2,334)	29
Income tax expense	334	481	44	308	437	42
Profit/(loss) for the year	(1,633)	631	n.a.	(1,508)	(1,897)	26
Attributable to						
Owners of the Company	(1,633)	631	n.a.	(1,508)	(1,897)	26
Non-controlling interests	-	-	n.a.	-	-	n.a.
	(1,633)	631	n.a.	(1,508)	(1,897)	26
Earnings per share						
Basic and diluted earnings/(loss) per share (kunas per share)	(163.3)	63.1	n.a.	(150.8)	(189.7)	26

Condensed Consolidated Statement of Comprehensive Income INA Group and INA d.d. for the period ended 31 December 2013 and 2014 (in HRK million)

	INA, d.d.			INA GROUP		
	2013 HRK mln	2014 HRK mln	Ch. %	2013 HRK mln	2014 HRK mln	Ch. %
Profit/(loss) for the year	(1,633)	631	n.a.	(1,508)	(1,897)	26
Other comprehensive income, net of income tax:						
Remeasurement of defined benefit obligation	(9)	-	n.a.	(11)	-	n.a.
Exchange differences on translating foreign operations	(181)	596	n.a.	(210)	567	n.a.
Net fair value gain/(loss) on available-for-sale financial assets	(7)	115	n.a.	(7)	115	n.a.
Other comprehensive income, net	(197)	711	n.a.	(228)	682	n.a.
Total comprehensive income/(loss) for the year	(1,830)	1,342	n.a.	(1,736)	(1,215)	(30)
Attributable to:						
Owners of the Company				(1,736)	(1,215)	(30)
Non-controlling interests				-	-	-

Condensed Consolidated Statement of Financial Position INA-Group and INA d.d. at 31 December 2014 (in HRK millions)

	INA, d.d.			INA GROUP		
	31 Dec 2013	31 Dec 2014	Ch. %	31 Dec 2013	31 Dec 2014	Ch. %
	HRK mln	HRK mln		HRK mln	HRK mln	
Assets						
Non-current assets						
Intangible assets	522	455	(13)	524	457	(13)
Property, plant and equipment	14,340	12,564	(12)	15,979	14,038	(12)
Goodwill	-	-	n.a.	183	183	0
Investments in subsidiaries	1,127	1,133	1	-	-	0
Investments in associates and joint ventures	22	22	0	22	22	0
Other investments	795	23	(97)	169	23	(86)
Long-term receivables	239	178	(26)	233	170	(27)
Derivative financial instruments	-	-	n.a.	-	-	n.a.
Deferred tax	1,076	1,702	58	1,127	1,742	55
Available for sale assets	330	462	40	330	462	40
Total non-current assets	18,451	16,539	(10)	18,567	17,097	(8)
Current assets						
Inventories	2,526	1,659	(34)	3,219	1,924	(40)
Trade receivables net	1,291	1,399	8	2,564	1,998	(22)
Intercompany receivables	1,677	117	(93)	-	-	0
Other receivables	330	122	(63)	426	181	(58)
Corporative income tax receivables	-	-	0	421	112	(73)
Derivative financial instruments	397	92	(77)	-	-	n.a.
Other current assets	150	789	426	144	282	96
Prepaid expenses and accrued income	98	149	52	166	154	(7)
Cash and cash equivalents	252	327	30	402	467	16
Current assets	6,721	4,654	(31)	7,342	5,118	(30)
Assets classified as held for sale	-	-	n.a.	-	-	n.a.
Total current assets	6,721	4,654	(31)	7,342	5,118	(30)
Total assets	25,172	21,193	(16)	25,909	22,215	(14)
Equity and liabilities						
Capital and reserves						
Share capital	9,000	9,000	0	9,000	9,000	0
Revaluation reserve	6	121	1,917	6	121	1,917
Other reserves	1,933	2,529	31	2,284	2,851	25
Retained earnings / (Deficit)	2,390	(174)	n.a.	1,586	(311)	n.a.
Equity attributable to equity holder of the parent	13,329	11,476	(14)	12,876	11,661	(9)
Non-controlling interests	-	-	n.a.	(1)	(1)	0
Total equity	13,329	11,476	(14)	12,875	11,660	(9)
Non-current liabilities						
Long-term loans	1,826	619	(66)	1,889	628	(67)
Other non-current liabilities	65	63	(5)	76	64	(16)
Employee benefits obligation	98	128	31	135	172	27
Provisions	2,707	2,849	5	2,754	2,837	3
Deferred tax liability	-	-	0	7	9	29
Total non-current liabilities	4,696	3,659	(22)	4,861	3,710	(24)
Current liabilities						
Bank loans and overdrafts	2,764	2,391	(13)	2,975	2,631	(12)
Current portion of long-term debt	255	187	(27)	299	199	(33)
Intercompany payables	569	443	(22)	-	-	0
Trade payables	2,146	1,256	(41)	2,841	1,713	(40)
Taxes and contributions	561	970	73	720	1,054	46
Other current liabilities	416	293	(30)	690	554	(20)
Accruals and deferred income	40	88	120	126	114	(10)
Employee benefits obligation	7	8	14	11	12	9
Provisions	390	422	8	511	568	11
Current liabilities	7,147	6,058	(15)	8,173	6,845	(16)
Liabilities directly associated with assets classified held for sale	-	-	n.a.	-	-	n.a.
Total current liabilities	7,147	6,058	(15)	8,173	6,845	(16)
Total liabilities	11,843	9,717	(18)	13,034	10,555	(19)
Total equity and liabilities	25,172	21,193	(16)	25,909	22,215	(14)

Condensed Consolidated Cash Flow Statement
INA Group and INA d.d. for the period ended 31 December 2013 and 2014
 (in HRK millions)

	INA, d.d.			INA GROUP		
	2013	2014	Ch. %	2013	2014	Ch. %
Profit/(loss) for the year	(1,633)	631	n.a.	(1,508)	(1,897)	26
Adjustments for:						
Depreciation and amortisation	2,101	1,980	(6)	2,261	2,132	(6)
Income tax (benefit)/expenses recognized in (loss)/profit	(334)	(481)	44	(308)	(437)	42
Impairment charges (net)	3,633	(7)	n.a.	2,769	2,052	(26)
Reversal of impairment	-	-	n.a.	-	-	n.a.
Gain on sale of property, plant and equipment	(5)	-	n.a.	(4)	(16)	300
Gain on purchase of investments and shares	-	-	0	-	-	n.a.
Foreign exchange loss/(gain)	12	192	1,500	(35)	249	n.a.
Interest income, net	(62)	(105)	69	176	196	11
Other financial expense recognised in profit	7	162	2,214	88	87	(1)
Increase in provisions	172	252	47	199	47	(76)
Decommissioning interests	80	87	9	82	89	9
Other non-cash items	2	63	3,050	(38)	5	n.a.
Operating cash flow before working capital changes	3,973	2,774	(30)	3,682	2,507	(32)
Movements in working capital						
(Increase)/decrease in inventories	(122)	766	n.a.	88	1,201	1,265
(Increase)/decrease in receivables and prepayments	(787)	1,090	n.a.	(303)	839	n.a.
(Decrease)/increase in trade and other payables	1,395	(910)	n.a.	1,599	(534)	n.a.
Cash generated from operations	4,459	3,720	(17)	5,066	4,013	(21)
Taxes paid	(357)	(86)	(76)	(490)	(154)	(69)
Net cash inflow from operating activities	4,102	3,634	(11)	4,576	3,859	(16)
Cash flows used in investing activities						
Payments for property, plant and equipment	(1,689)	(1,542)	(9)	(1,832)	(1,292)	(29)
Payment for intangible assets	(245)	(28)	(89)	(248)	(297)	20
Proceeds from sale of non-current assets	9	-	n.a.	3	34	1,033
Purchase of subsidiaries	-	-	0	(7)	-	n.a.
Proceeds from sale of investments	-	-	0	-	-	0
Acquisition of investments in associates and joint ventures and other companies	(10)	-	n.a.	-	-	0
Dividends received from companies classified as available for sale and from other companies	3	7	133	3	7	133
Proceeds from profit of companies	39	4	(90)	-	-	0
Interest received and other financial income	97	82	(15)	25	34	36
Investments and loans to third parties, net	14	54	286	(80)	49	n.a.
Net cash used for investing activities	(1,782)	(1,423)	(20)	(2,136)	(1,465)	(31)
Cash flows from financing activities						
Additional long-term borrowings	6,160	2,202	(64)	6,160	2,202	(64)
Repayment of long-term borrowings	(9,798)	(3,564)	(64)	(9,878)	(3,706)	(62)
Additional short-term borrowings	15,060	14,767	(2)	15,086	14,715	(2)
Repayment of short term borrowings	(13,240)	(15,368)	16	(13,386)	(15,258)	14
Dividends paid	(343)	-	n.a.	(343)	-	n.a.
Interest paid on long-term loans	(79)	(41)	(48)	(88)	(45)	(49)
Other long-term liabilities, net	(7)	(2)	(71)	-	-	n.a.
Interest paid on short term loans and other financing charges	(88)	(131)	49	(72)	(209)	190
Net cash from financing activities	(2,335)	(2,137)	(8)	(2,521)	(2,301)	(9)
Net (decrease)/increase in cash and cash equivalents	(15)	74	n.a.	(81)	93	n.a.
At 1 January	270	252	(7)	488	402	(18)
Effect of foreign exchange rate changes	(3)	1	n.a.	(5)	(28)	460
At the end of period	252	327	30	402	467	16

**Condensed Consolidated Statement of Changes in Equity INA Group and INA d.d.
for the period ended 31 December 2013 and 2014 (in HRK millions)**

Attributable to equity holders of the parent

INA, d.d.	Share capital	Other reserves	Revaluation reserves	Retained profits / (Accumulated deficit)	Total
Balance as at 1 January 2013	9,000	2,123	13	4,366	15,502
Profit for the period	-	-	-	(1,633)	(1,633)
Other comprehensive loss, net	-	(190)	(7)	-	(197)
Total comprehensive loss for the year	-	(190)	(7)	(1,633)	(1,830)
Dividends paid	-	-	-	(343)	(343)
Balance as at 31 Dec 2013	9,000	1,933	6	2,390	13,329
Balance as at 1 January 2014	9,000	1,933	6	2,390	13,329
Loss for the period	-	-	-	631	631
Other comprehensive loss, net	-	596	115	-	711
Total comprehensive loss for the year	-	596	115	631	1,342
Loss brought forward from legal merger	-	-	-	(3,195)	(1,195)
Balance as at 31 Dec 2014	9,000	2,529	121	(174)	11,476

INA-Group	Share capital	Other reserves	Revaluation reserves	Retained profits / (Accumulated deficit)	Total	Non controlling interest	Total equity
Balance as at 1 January 2013	9,000	2,505	13	3,437	14,955	(1)	14,954
Loss for the year	-	-	-	(1,508)	(1,508)	-	(1,508)
Purchase of non-controlling interest	-	-	-	-	-	-	-
Other comprehensive loss, net	-	(221)	(7)	-	(228)	-	(228)
Total comprehensive loss for the year	-	(221)	(7)	(1,508)	(1,736)	-	(1,736)
Dividends paid	-	-	-	(343)	(343)	-	(343)
Balance as at 31 Dec 2013	9,000	2,284	6	1,586	12,876	(1)	12,875
Balance as at 1 January 2014	9,000	2,284	6	1,586	12,876	(1)	12,875
Loss for the period	-	-	-	(1,897)	(1,897)	-	(1,897)
Other comprehensive profit net	-	567	115	-	682	-	682
Total comprehensive loss for the year	-	567	115	(1,897)	(1,215)	-	(1,215)
Dividends paid	-	-	-	-	-	-	-
Balance as at 31 Dec 2014	9,000	2,851	121	(311)	11,661	(1)	11,660

Special items in operating profit and EBITDA

(in HRK mln)

	INA, d.d.		INAGROUP	
	2013	2014	2013	2014
INA, d.d.				
Total impact of special items on net profit/(loss)	(2,461)	(2,394)	(2,461)	(2,441)
Total impact of special items on operating profit/(loss)	(2,321)	(2,188)	(2,321)	(2,235)
Total impact of special items on EBITDA	(79)	(119)	(79)	(119)
Exploration & Production				
Total impact of special items on operating profit/(loss)	(1,504)	(1,604)	(1,504)	(1,604)
Total impact of special items on EBITDA	-	-	-	-
Impairment of assets	(215)	-	(215)	-
Impairment of assets - Syria	(1,289)	(1,562)	(1,289)	(1,562)
Provisions for incentives	-	(42)	-	(42)
Refining & Marketing				
Total impact of special items on operating profit/(loss)	(817)	(564)	(817)	(564)
Total impact of special items on EBITDA	(79)	(119)	(79)	(119)
Impairment of assets - Refinery	(738)	(395)	(738)	(395)
Refinery - tax case	(79)	(119)	(79)	(119)
Provisions for incentives	-	(50)	-	(50)
Corporate functions				
Total impact of special items on operating profit/(loss)	-	(20)	-	(67)
Total impact of special items on EBITDA	-	-	-	-
Impairment of assets - Syria	-	-	-	(34)
Provisions for incentives	-	(20)	-	(33)
Impacts on financial result and income tax				
Finance expenses*	(48)	(106)	(48)	(106)
Income tax*	(92)	(100)	(92)	(100)

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

Main external parameters

	2013	2014	Ch. %
Brent dtd (USD/bbl)	108.7	99.0	(8.9)
Brent-Ural spread	0.5	1.0	118.7
Premium unleaded gasoline 10 ppm (USD/t)*	981.4	905.3	(7.8)
Gas oil – ULSD 10 ppm (USD/t)*	930.8	850.5	(8.6)
Fuel oil 3,5% (USD/t)*	587.8	526.1	(10.5)
LPG (USD/t)*	852.5	774.1	(9.2)
Average crack spread	62.1	59.0	(5.1)
Crack spread – premium unleaded (USD/t)*	159.4	162.6	2.0
Crack spread – gas oil (USD/t)*	108.8	101.5	(6.6)
Crack spread - fuel oil 3,5% (USD/t)*	(234.2)	(220.3)	(6.0)
Crack spread - LPG (USD/t)*	30.5	22.3	(27.0)
HRK/USD average	5.71	5.75	0.8
HRK/USD closing	5.55	6.30	13.6
HRK/EUR average	7.57	7.63	0.7
HRK/EUR closing	7.64	7.66	0.3
3m USD LIBOR (%)	0.27	0.23	(12.5)
3m EURIBOR (%)	0.22	0.21	(5.4)

* FOB Mediterranean

Subsequent events after the balance sheet date

Decision by the High Administrative Court

INA-Industrija nafte, d.d. received the verdict by the High Administrative Court accepting INA's lawsuit and annulling the Resolution of the Ministry of Economy, Labour and Entrepreneurship from 29 July 2011, which has revoked INA's license for mineral resources exploration in the exploration area "Drava".

Although the exploration license has once again become valid with this verdict, deadline for exploration activities expired at the end of 2014 and there is also a significant overlap of concession area "Drava" with the blocks currently involved in the Croatian onshore exploration bid round. Therefore prior to starting any exploration process INA will request for the prolongation of the exploration license validity for the period from the revocation of the license until reaching a verdict by the Republic of Croatia High Administrative Court.

Announcements in Q1-Q4 2014

November 26, 2014	Announcement by MOL
November 19, 2014	Revocation of exploration licenses
October 28, 2014	Supervision by the Ministry of Finance Report
October 17, 2014	Verdict by the High Administrative Court
October 09, 2014	Redundancy Program
September 02, 2014	Announcement
September 02, 2014	GDR delisting
August 04, 2014	Personnel changes in Refining and Marketing BD
August 01, 2014	Intention to delist GDR
July 31, 2014	Merger agreement - Prirodni plin
July 09, 2014	Supervisory Board Employee representative
July 04, 2014	Start of production on the Izabela field
June 27, 2014	Disposal of shares
June 24, 2014	General Assembly Decisions
June 20, 2014	Amendment of the Invitation to the General Assembly
May 21, 2014	Supervisory Board meeting held
May 16, 2014	General Meeting notice
March 26, 2014	Supervisory Board meeting held
March 26, 2014	Code of Corporate Governance Questionnaire for 2013
March 21, 2014	Changes in regulation
February 28, 2014	Response to the inquiry of the Zagreb Stock Exchange
February 28, 2014	Announcement
January 14, 2014	Contracts signed for works on Medimurje project

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

	31 Dec 06	31 Dec 07	31 Dec 08	31 Dec 09	31 Dec 10	31 Dec 11	31 Dec 12	31 Dec 13	31 Dec 14
MOL Plc.	2,500,001	2,500,001	4,715,538	4,715,538	4,715,538	4,725,620	4,908,207	4,908,207	4,908,207
Government of the Rep. of Croatia	5,180,367	4,484,918	4,483,552	4,483,552	4,483,552	4,483,552	4,483,552	4,483,552	4,483,552
Private and institutional investors	2,319,632	3,015,081	800,91	800,91	800,91	790,828	608,241	608,241	608,241
Total	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000

Source: Central Clearing Depository Company.

Changes in organization, Management Board or Supervisory Board

Supervisory Board

On the meeting held on 9 July 2014, Workers Council of INA-Inudstrija nafte, d.d. revoked Mr Božo Mikuš and elected Mrs Maja Rilović as the Employee representative in the Supervisory Board of INA, d.d.

Management Board

At the session of the Supervisory Board held on 21 May 2014, Supervisory Board accepted the resignation of Dr. Pál Kara from the position of the member of INA, d.d. Management Board and unanimously appointed Dr. Gábor Horváth as member of INA, d.d. Management Board for a period from 21 May 2014 until 31 March 2015.

Board of Executive Directors

As of 1 September 2014 Mr. Artur Thernesz finished his assignment as the Executive Director of INA's Refining and Marketing business division. Mr Bengt Viktor Oldsberg, former Director of Production Centre is appointed for the position of Executive Director of Refining and Marketing.

Management representation

INA Group's consolidated financial statements for Q1-Q4 2014 have been prepared in accordance with the International Financial Reporting Standards (IFRS), i.e. they present fairly, in all material aspects, the financial position of the company, results of its operations and cash flows.

Management Board:

Zoltán Áldott	President
Niko Dalić	Member
Gábor Horváth	Member
Ivan Krešić	Member
Davor Mayer	Member
Péter Ratatics	Member