INA GROUP and

INA - INDUSTRIJA NAFTE, d.d.

Consolidated and separate

Financial Statements for the year ended

31 December 2015

Together with Independent Auditors' Report

Content

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

9 March 2016

To the shareholders and the Board of INA – Industrija Nafte, d.d.

We have audited the accompanying financial statements ("the financial statements") of INA – Industrija Nafte, d.d. ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated and separate statement of financial position as at 31 December 2015, 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 3 to 127).

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

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

Opinion

In our opinion financial statements present fairly, in all material respects, the financial position of the Company and the Group as at 31 December 2015 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.

Slaven Đuroković
Director and certified auditor
Ernst & Young d.o.o. Zagreb
Republic of Croatia

Zagreb, 9 March 2016

INA Group Consolidated Statement of Profit or Loss

For the year ended 31 December 2015

(all amounts are presented in HRK millions)

	Note	Year ended 31 December 2015	Year ended 31 December 2014
Sales revenue			
a) domestic		11,116	14,187
b) exports		7,745	9,572
Total sales revenue	4	**18,861**	**23,759**
Capitalised value of own performance		466	459
Other operating income	5	448	267
Total operating income		**19,775**	**24,485**
Changes in inventories of finished products and work in progress		(238)	(935)
Cost of raw materials and consumables		(8,364)	(11,353)
Depreciation and amortisation	6	(2,191)	(2,132)
Other material costs		(2,572)	(2,455)
Service costs		(706)	(1,000)
Staff costs	7	(2,422)	(2,467)
Cost of other goods sold		(2,809)	(3,705)
Impairment charges (net)	8	(1,546)	(2,052)
Provision for charges and risks (net)	9	(265)	(108)
Operating expenses		**(21,113)**	**(26,207)**
Loss from operations		**(1,338)**	**(1,722)**
Finance income	10	197	208
Finance costs	11	(608)	(820)
Net loss from financial activities		**(411)**	**(612)**
Loss before tax		**(1,749)**	**(2,334)**
Income tax benefit	12	331	437
Loss for the year		**(1,418)**	**(1,897)**
Attributable to:			
Owners of the Company		**(1,418)**	**(1,897)**
Non-controlling interests		-	-
		(1,418)	**(1,897)**
Earnings per share			
Basic and diluted loss per share (kunas per share)	13	(141.78)	(189.66)

Signed on behalf of the Group on 9 March 2016 by:

Dr. Ákos Székely	Zoltán Sándor Áldott
Executive Director for Finance	President of the Management Board

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

INA Group Consolidated Statement of Other Comprehensive Income

For the year ended 31 December 2015

(all amounts are presented in HRK millions)

	Note	Year ended 31 December 2015	Year ended 31 December 2014
Loss for the year		**(1,418)**	**(1,897)**
Other comprehensive income, net of income tax:			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit obligation	33	36	-
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations	36	358	567
Gain on available-for-sale financial assets	35	95	115
Other comprehensive gain, net of income tax		**489**	**682**
Total comprehensive loss for the year		**(929)**	**(1,215)**
Attributable to:			
Owners of the Company		(929)	(1,215)
Non-controlling interests		-	-

Signed on behalf of the Group on 9 March 2016 by:

Dr. Ákos Székely	Zoltán Sándor Áldott
Executive Director for Finance	President of the Management Board

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

INA, d.d. Separate Statement of Profit or Loss

For the year ended 31 December 2015

(all amounts are presented in HRK millions)

	Note	Year ended 31 December 2015	Year ended 31 December 2014
Sales revenue			
a) domestic		10,870	13,394
b) exports		6,291	7,685
Total sales revenue	4	**17,161**	**21,079**
Capitalised value of own performance		9	4
Other operating income	5	302	351
Total operating income		**17,472**	**21,434**
Changes in inventories of finished products and work in progress		(233)	(705)
Cost of raw materials and consumables		(8,102)	(11,624)
Depreciation and amortisation	6	(2,078)	(1,980)
Other material costs		(2,086)	(1,960)
Service costs		(563)	(803)
Staff costs	7	(1,618)	(1,488)
Cost of other goods sold		(2,497)	(2,704)
Impairment and charges (net)	8	(1,213)	7
Provision for charges and risks (net)	9	(248)	(79)
Operating expenses		**(18,638)**	**(21,336)**
(Loss)/profit from operations		**(1,166)**	**98**
Finance income	10	306	781
Finance costs	11	(638)	(729)
Net (loss)/profit from financial activities		**(332)**	**52**
(Loss)/profit before tax		**(1,498)**	**150**
Income tax benefit	12	296	481
(Loss)/profit for the year		**(1,202)**	**631**

Signed on behalf of the Company on 9 March 2016 by:

Dr. Ákos Székely	Zoltán Sándor Áldott
Executive Director for Finance	President of the Management Board

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

(all amounts are presented in HRK millions)

	Note	Year ended 31 December 2015	Year ended 31 December 2014
(Loss)/profit for the year		**(1,202)**	**631**
Other comprehensive income, net of income tax:			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit obligation	33	29	-
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations	36	355	596
Gain on available-for-sale financial assets	35	95	115
Other comprehensive gain, net of income tax		**479**	**711**
Total comprehensive (loss)/income for the year		**(723)**	**1,342**

Signed on behalf of the Company on 9 March 2016 by:

Dr. Ákos Székely	Zoltán Sándor Áldott
Executive Director for Finance	President of the Management Board

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

INA Group Consolidated Statement of Financial Position

At 31 December 2015

(all amounts are presented in HRK millions)

ASSETS	**Note**	**31 December 2015**	**31 December 2014**
Non-current assets			
Intangible assets	14	388	457
Property, plant and equipment	15	12,730	14,038
Goodwill	16	152	183
Investments in associates	18	22	22
Other investments	19	14	23
Long-term receivables and other assets	20	144	170
Deferred tax	12	2,094	1,742
Available-for-sale assets	21	581	462
Total non – current assets		**16,125**	**17,097**
Current assets			
Inventories	22	1,820	1,924
Trade receivables, net	23.39	1,724	1,998
Other receivables	24	136	181
Corporate Income tax receivables		23	112
Other current assets	25	224	282
Prepaid expenses and accrued income		54	154
Cash and cash equivalents	26	275	467
		4,256	**5,118**
Held-for-sale assets		1	-
Total current assets		**4,257**	**5,118**
TOTAL ASSETS		**20,382**	**22,215**

Signed on behalf of the Group on 9 March 2016 by:

Dr. Ákos Székely
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.

(all amounts are presented in HRK millions)

EQUITY AND LIABILITIES	Note	31 December 2015	31 December 2014
Capital and reserves			
Share capital	34	9,000	9,000
Legal reserves		330	330
Revaluation reserve	35	216	121
Other reserves	36	1,641	2,851
Accumulated loss	37	(602)	(641)
Equity attributable to owners of the Company		**10,585**	**11,661**
Non-controlling interest	38	-	(1)
TOTAL EQUITY		**10,585**	**11,660**
Non – current liabilities			
Long-term loans	30	400	628
Other non-current liabilities	31	66	64
Employee benefit obligation	33	101	172
Provisions	32	3,266	2,837
Deferred tax liabilities		22	9
Total non–current liabilities		**3,855**	**3,710**
Current liabilities			
Bank loans and overdrafts	27	2,768	2,631
Current portion of long-term loans	27	139	199
Trade payables	28.39	1,400	1,713
Taxes and contributions	28	665	1,054
Other current liabilities	28	271	554
Accruals and deferred income	29	64	114
Employee benefit obligation	33	8	12
Provisions	32	627	568
Total current liabilities		**5,942**	**6,845**
Total liabilities		**9,797**	**10,555**
TOTAL EQUITY AND LIABILITIES		**20,382**	**22,215**

Signed on behalf of the Group on 9 March 2016 by:

Dr. Ákos Székely	Zoltán Sándor Áldott
Executive Director for Finance	President of the Management Board

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

INA, d.d. Separate Statement of Financial Position

At 31 December 2015

(all amounts are presented in HRK millions)

ASSETS	Note	31 December 2015	31 December 2014
Non-current assets			
Intangible assets	14	385	455
Property, plant and equipment	15	11,542	12,564
Investment in subsidiaries	17	1,000	1,133
Investments in associates	18	22	22
Other investments	19	692	23
Long-term receivables	20	149	178
Deferred tax	12	1,995	1,702
Available-for-sale assets	21	581	462
Total non–current assets		**16,366**	**16,539**
Current assets			
Inventories	22	1,597	1,659
Intercompany receivables	39	140	117
Trade receivables, net	23.39	1,176	1,399
Other receivables	24	84	122
Corporate Income tax receivables		8	92
Other current assets	25	208	789
Prepaid expenses and accrued income		42	149
Cash and cash equivalents	26	195	327
Total current assets		**3,450**	**4,654**
TOTAL ASSETS		**19,816**	**21,193**

Signed on behalf of the Company on 9 March 2016 by:

Dr. Ákos Székely	Zoltán Sándor Áldott
Executive Director for Finance	President of the Management Board

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

(all amounts are presented in HRK millions)

EQUITY AND LIABILITIES	**Note**	**31 December 2015**	**31 December 2014**
Capital and reserves			
Share capital	34	9,000	9,000
Legal reserves		330	330
Revaluation reserve	35	216	121
Other reserves	36	1,273	2,529
Accumulated loss	37	(310)	(504)
TOTAL EQUITY		**10,509**	**11,476**
Non–current liabilities			
Long term loans	30	400	619
Other non-current liabilities	31	65	63
Employee benefit obligation	33	66	128
Provisions	32	3,374	2,849
Total non–current liabilities		**3,905**	**3,659**
Current liabilities			
Bank loans and overdrafts	27	2,508	2,391
Current portion of long-term loans	27	133	187
Intercompany payables	39	488	443
Trade payables	28.39	967	1,256
Taxes and contributions	28	606	970
Other current liabilities	28	216	293
Accruals and deferred income	29	17	88
Employee benefit obligation	33	4	8
Provisions	32	463	422
Total current liabilities		**5,402**	**6,058**
Total liabilities		**9,307**	**9,717**
TOTAL EQUITY AND LIABILITIES		**19,816**	**21,193**

Signed on behalf of the Company on 9 March 2016 by:

Dr. Ákos Székely	Zoltán Sándor Áldott
Executive Director for Finance	President of the Management Board

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

INA Group Consolidated Statement of Changes in Equity

For the year ended 31 December 2015

(all amounts are presented in HRK millions)

	Share capital	Legal reserves	Other reserves	Revaluation reserves	Retained earnings/(Accumulated loss)	Attributable to equity holders of the parent	Non controlling interest	Total
Balance at 1 January 2014	**9,000**	**330**	**2,284**	**6**	**1,256**	**12,876**	**(1)**	**12,875**
Loss for the year	-	-	-	-	(1,897)	(1,897)	-	(1,897)
Other comprehensive loss, net	-	-	567	115	-	682	-	682
Total comprehensive income for the year	**-**	**-**	**567**	**115**	**(1,897)**	**(1,215)**	**-**	**(1,215)**
Balance at 31 December 2014	**9,000**	**330**	**2,851**	**121**	**(641)**	**11,661**	**(1)**	**11,660**
Transfer from other reserves to retained earnings	-	-	(1,640)	-	1,640	**-**	**-**	**-**
Dividend paid	-		-	-	(150)	(150)	-	(150)
Subtotal	**9,000**	**330**	**1,211**	**121**	**849**	**11,511**	**(1)**	**11,510**
Loss for the year	-	-	-	-	(1,418)	(1,418)	-	(1,418)
Other comprehensive income, net	-	-	394	95	-	489	-	489
Total comprehensive income/(loss) for the year	**-**	**-**	**394**	**95**	**(1,418)**	**(929)**	**-**	**(929)**
Foreign exchange differences transferred of other reserves and other changes	-	-	36	-	(33)	3	1	4
Balance at 31 December 2015	**9,000**	**330**	**1,641**	**216**	**(602)**	**10,585**	**-**	**10,585**

Signed on behalf of the Group on 9 March 2016 by:

Dr. Ákos Székely
Executive Director for Finance

Zoltán Sándor Áldott
President of the Management Board

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

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

For the year ended 31 December 2015

(all amounts are presented in HRK millions)

	Share capital	Legal reserves	Other reserves	Revaluation reserves	Retained earnings/(Accumulated loss)	Total
Balance at 1 January 2014	**9,000**	**330**	**1,933**	**6**	**2,060**	**13,329**
Loss for the year	-	-	-	-	631	631
Other comprehensive loss, net	-	-	596	115	-	711
Total comprehensive income 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**	**330**	**2,529**	**121**	**(504)**	**11,476**
Transfer other reserves to retained earnings	**-**	**-**	(1,640)	-	1,640	**-**
Dividend paid	-	-	-	-	(150)	(150)
Loss brought forward from legal merger	-	-	-	-	(94)	(94)
Subtotal	**9,000**	**330**	**889**	**121**	**892**	**11,232**
Profit for the year	-	-	-	-	(1,202)	(1,202)
Other comprehensive income, net	-	-	384	95	-	479
Total comprehensive income/(loss) for the year	**-**	**-**	**384**	**95**	**(1,202)**	**(723)**
Balance at 31 December 2015	**9,000**	**330**	**1,273**	**216**	**(310)**	**10,509**

Signed on behalf of the Company on 9 March 2016 by:

Dr. Ákos Székely	Zoltán Sándor Áldott
Executive Director for Finance	President of the Management Board

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

(all amounts are presented in HRK millions)

	Note	Year ended 31 December 2015	Year ended 31 December 2014
Loss for the year		**(1,418)**	**(1,897)**
Adjustments for:			
Depreciation and amortisation		2,191	2,132
Income tax benefit recognised in income statement		(331)	(437)
Impairment charges (net)		1,546	2,052
Gain on sale of property, plant and equipment		(19)	(16)
Foreign exchange loss		205	249
Gain on sale of investments and shares		(32)	-
Interest expense (net)		58	196
Other finance expense recognised in income statement		77	77
Increase in provisions		194	47
Decommisioning interests and other provision		70	89
Other non-cash items		8	5
		2,549	**2,497**
Movements in working capital			
Decrease in inventories		12	1,201
Decrease in receivables and prepayments		220	839
Decrease in trade and other payables		(645)	(534)
Cash generated from operations		**2,136**	**4,003**
Taxes paid		(157)	(154)
Net cash inflow from operating activities		**1,979**	**3,849**
Cash flows used in investing activities			
Capital expenditures, exploration and development costs		(1,561)	(1,292)
Payments for intangible assets		(38)	(297)
Proceeds from sale of non-current assets		33	34
Amount related to sale of subsidiary (net)		(3)	-
Dividends received from companies classified as available-for-sale and from other companies		7	7
Interest received and other financial income		15	34
Investments and loans to third parties (net)		39	49
Net cash used for investing activities		**(1,508)**	**(1,465)**

(all amounts are presented in HRK millions)

	Note	Year ended 31 December 2015	Year ended 31 December 2014
Cash flows from financing activities			
Additional long-term borrowings		1,602	2,202
Repayment of long-term borrowings		(1,926)	(3,706)
Additional short-term borrowings		12,237	14,715
Repayment of short-term borrowings		(12,221)	(15,258)
Dividends paid		(150)	-
Interest paid on long-term loans		(16)	(45)
Interest paid on short term loans and other interest charges		(149)	(199)
Net cash used in financing activities		**(623)**	**(2,291)**
Net (decrease)/increase in cash and cash equivalents		**(152)**	**93**
At 1 January		467	402
Effect of foreign exchange rate changes		(40)	(28)
At 31 December	26	**275**	**467**

Signed on behalf of the Group on 9 March 2016 by:

Dr. Ákos Székely
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.

(all amounts are presented in HRK millions)

	Note	Year ended 31 December 2015	Year ended 31 December 2014
(Loss)/profit for the year		**(1,202)**	**631**
Adjustments for:			
Depreciation and amortisation		2,078	1,980
Income tax benefit recognised in income statement		(296)	(481)
Impairment charges (net)		1,213	(7)
Gain on sale of property plant and equipment		(10)	-
Foreign exchange loss		139	192
Interest income (net)		(12)	(105)
Other finance expense recognised in income statement		152	152
Increase in provisions		262	252
Decommisioning interests		75	87
Other non-cash items		25	63
		2,424	**2,764**
Movements in working capital			
(Increase)/decrease in inventories		(39)	766
Decrease in receivables and prepayments		266	1,090
Decrease in trade and other payables		(855)	(910)
Cash generated from operations		**1,796**	**3,710**
Taxes paid		(114)	(86)
Net cash inflow from operating activities		**1,682**	**3,624**
Cash flows used in investing activities			
Capital expenditures, exploration and development costs		(1,394)	(1,542)
Payment for intangible assets		(61)	(28)
Proceeds from sale of non-current assets		10	-
Proceeds related to liquidation of subsidiaries		2	-
Dividends received from companies classified as available- for-sale and from other companies		7	7
Payments received from subsidiaries		16	4
Interest received and other financial income		53	82
Investments and loans, net		(99)	54
Net cash used in investing activities		**(1,466)**	**(1,423)**

(all amounts are presented in HRK millions)

	Note	Year ended 31 December 2015	Year ended 31 December 2014
Cash flows from financing activities			
Additional long-term borrowings		1,602	2,202
Repayment of long-term borrowings		(1,913)	(3,564)
Additional short-term borrowings		12,427	14,767
Repayment of short-term borrowings		(12,268)	(15,368)
Dividends paid		(150)	-
Interest paid on long-term loans		(15)	(41)
Other long-term liabilities, net		3	(2)
Interest paid on short term loans and other interest charges		(35)	(121)
Net cash used in financing activities		**(349)**	**(2,127)**
Net (decrease)/increase in cash and cash equivalents		**(133)**	**74**
At 1 January		327	252
Effect of foreign exchange rate changes		1	1
At 31 December	26	**195**	**327**

Signed on behalf of the Company on 9 March 2016 by:

Dr. Ákos Székely	Zoltán Sándor Áldott
Executive Director for Finance	President of the Management Board

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

(all amounts are presented in HRK millions)

1. GENERAL

History and incorporation

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

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

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

The initial public offering of 17% of INA, d.d. shares was successfully launched in November 2006. From 1 December 2006 the shares were listed on the Zagreb Stock Exchange and the London Stock Exchange where the trading in global depositary receipts (GDRs) started. Due to subsequent decrease in activity on the London Stock Exchange, GDRs have been cancelled on 2 September 2014.

The ownership structure* of the INA Group as of 31 December 2015 and 2014:

	31 December 2015		31 December 2014	
	Number of shares	Ownership in %	Number of shares	Ownership in %
Zagrebačka banka d.d./Unicreditbank Hungary Zrt, for MOL Nyrt, Hungary	4,908,207	49.08	4,908,207	49.08
Government of the Republic of Croatia	4,483,552	44.84	4,483,552	44.84
Institutional and private investors	608,241	6.08	608,241	6.08
	10,000,000	**100**	**10,000,000**	**100**

*Source: Central Depository & Clearing Company Inc.

(all amounts are presented in HRK millions)

1. GENERAL (CONTINUED)

Principal activities

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

(i) exploration and production of oil and gas deposits, primarily onshore and offshore within Croatia; other licence interests are held 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 (Urinj) and Sisak, and Zagreb lubricants plants;

(iv) distribution of fuels and associated products through a chain of 438 retail outlets in operation as of 31 December 2015 (of which 388 in Croatia and 50 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 2015 there were 11,256 persons employed at the Group (12,503 as at 31 December 2014). As at 31 December 2015 there were 7,352 persons employed at INA, d.d. (8,150 as at 31 December 2014).

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 and as representative offices within their local markets.

Directors, Management and Supervisory Board

Supervisory Board

Supervisory Board since 18 December 2012 until 10 July 2014

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

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

(all amounts are presented in HRK millions)

1. GENERAL (CONTINUED)

Directors, Management and Supervisory Board (continued)

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 until 31 March 2015

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

Management Board since 1 April 2015

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

(all amounts are presented in HRK millions)

1. GENERAL (CONTINUED)

Directors, Management and Supervisory Board (continued)

Executive Board

Executive Board appointed by the decision of the Management Board from1 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

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

* Following Management Board decision, Dr. Ákos Székely has been appointed as Executive Director in charge of Finance, effective from 1 February 2016

Company secretary

Secretary since 18 June 2008 until 31 May 2015

Nives Troha	Secretary of INA, d.d.

Acting Company Secretary since 1 June 2015

Duško Margušić	Acting Company 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 adopted by EU.

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.

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:

- **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 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).

The adoption of these Standards and Interpretations had no material impact on the financial statements of the Company and the Group.

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:

- **Amends IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*** issued in May 2014 to clarify of Acceptable Methods of Depreciation and Amortization, adopted in EU 2 December 2015, (effective date for annual periods beginning on or after 1 January 2016).

- **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, adopted in EU 24 November 2015 (effective date for annual periods beginning on or after 1 January 2016).

- **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 IAS 27 *Separate Financial Statements*** (as amended in 2011) reinstating the equity method as an accounting option for investments in in subsidiaries, joint ventures and associates in an entity's separate financial statements, issued in August 2014 and adopted in EU 18 December 2015 (effective date for annual periods beginning on or after 1 January 2016).

- **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).

2. ACCOUNTING POLICIES (CONTINUED)

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

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

- **Annual Improvements to IFRSs** (**cycle 2012-2014)** resulting from the amendments on standards IFRS 5, IAS 19, IFRS 7 and IAS 34 issued in September 2014,, adopted 15 December 2015, (effective date for annual periods beginning on or after 1 January 2016).

- **Amendments to *IAS 1 Disclosure Initiative***, clarify the requirements for additional subtotals that are presented in statement (effective date for annual periods beginning on or after 1 January 2016). The endorsement might be expected in 2016.

The Management anticipates that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Company and the Group.

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*,** issued in July 2014 the final version that replaced the IAS 39 *Financial Instruments: Recognition and Measurement* (effective for annual periods beginning on or after 1 January 2018). The endorsement might be expected in 2016.

- **IFRS 14 *Regulatory Deferral Accounts,*** issued in January 2014 (effective date to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2016). The European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard. Since the Group is an existing IFRS preparer, this standard would not apply.

- **IFRS 15 *Revenue from Contracts with Customers***, issued in May 2014 including amendment to IFRS 15: Effective dates of IFRS 15, issued in September 2015 (effective date to an entity's first annual IFRS financial statements for a period beginning on or after 1 January 2018). The endorsement might be expected in 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). The EU postpone the endorsement and decide to wait further IASB developments.

- **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). The endorsement might be expected in 2016.

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

- **IFRS 16 *Leases,*** issued in January 2016 replaces accounting treatment for leases and is a major revision of the way in which companies account for leases (effective date for annual periods beginning on or after 1 January 2019). Early application is permitted for companies that also apply IFRS 15 *Revenue from Contracts with Customers.* EU will in future define when the standard might be endorsed.

- **Amendments to IAS 7 *Cash flow,*** issued in January 2016**,** a new disclosure initiative, (effective date for annual periods beginning on or after 1 January 2017).

- **Amendment to IAS 12 *Revenue,*** issued in January 2016, regarding the recognition of deferred tax assets for unrealized losses. The amendments are effective for annual periods beginning on or after 1 January 2017. The endorsement might be expected in 2016.

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

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

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

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.

2. ACCOUNTING POLICIES (CONTINUED)

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

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 in line with the Group's accounting policies.

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

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

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

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

Legal merger

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

Business combination

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

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

2. ACCOUNTING POLICIES (CONTINUED)

Business combination (continued)

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

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

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

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

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

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

2. ACCOUNTING POLICIES (CONTINUED)

Business combination (continued)

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

Goodwill

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

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

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

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

On disposal of the relevant cash-generating unit, the attribute amount of goodwill is included in the determination of the gain 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.

2. ACCOUNTING POLICIES (CONTINUED)

Investments in associates (continued)

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.

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.

2. ACCOUNTING POLICIES (CONTINUED)

Interests in joint operations

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

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

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

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

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

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

Oil and gas properties

Exploration and appraisal costs

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

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

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

Fields under development

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

2. ACCOUNTING POLICIES (CONTINUED)

Oil and gas properties (continued)

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 proved developed oil and gas reserves. Changes in the commercial reserves of fields affecting unit of production calculations are dealt with prospectively over the revised remaining reserves. Group performed reserves determination in accordance with SPE PRMS (Society of Petroleum Engineers Petroleum Resources Management System) guidelines.

Intangible assets

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

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

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

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

Property, plant and equipment

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

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

2. ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (continued)

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

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

Depreciation, Depletion and Amortisation

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

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

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

Impairment of tangible and intangible assets other than goodwill

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

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

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

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

2. ACCOUNTING POLICIES (CONTINUED)

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

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

Finance and operating leases

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

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

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

Receivables from customers

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

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

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

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

2. ACCOUNTING POLICIES (CONTINUED)

Receivables from customers (continued)

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

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

Inventories

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

- Crude oil is carried at the weighted average cost or the production cost. If finished i.e. refined products are impaired, a calculation is used to reduce the crude oil reserve by an aliquot share to its net recoverable amount.
- Finished products are valued at the lower of cost or 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 2015 was 2.00% and for 2014 was 2.06%.

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

2. ACCOUNTING POLICIES (CONTINUED)

Foreign currencies

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

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

At each statement of financial position date, monetary items 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.

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.

The foreign concessions of INA, d.d. meets the definition of foreign operation and are treated as such.

Business activities of INA in Egypt, Angola and in international waters in the North Adriatic Sea (several blocks) are carried out with a significant degree of autonomy so the functional currency is USD except on gas field Isabella where the functional currency is the euro. The total revenue of a foreign operation (from the sale of crude oil and natural gas) is denominated in that currency (USD or EUR), as most of the costs. Capital expenditures are planned and presented in dollars or euros. Although, they are not separate legal entities, they meet the definition of a foreign operation in accordance with IAS 21.

2. ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (continued)

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

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

Retirement Benefit and Jubilee Costs

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

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

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

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

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

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

2. ACCOUNTING POLICIES (CONTINUED)

Taxation

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

Current tax

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

Deferred tax

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

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

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

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

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

Current and deferred tax for the period

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

2. ACCOUNTING POLICIES (CONTINUED)

Financial assets

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

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

Effective interest method

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

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

AFS financial assets

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

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

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

Financial assets at fair value through profit or loss

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

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

2. ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

Loans and receivables

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

Impairment of financial assets

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

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

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

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

Investments

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

Financial liabilities and equity instruments

Classification as debt or equity

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

2. ACCOUNTING POLICIES (CONTINUED)

Financial liabilities and equity instruments (continued)

Equity instruments

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

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

Financial liabilities

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

Financial liabilities at FVTPL

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

A financial liability is classified as held for trading if:

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

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

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a Group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 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.

2. ACCOUNTING POLICIES (CONTINUED)

Financial liabilities and equity instruments (continued)

Other financial liabilities

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

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

Derecognition of financial liabilities

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

Derivative financial instruments

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

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

Hedging

The Group designates certain hedging instruments as fair value hedges.

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

Fair value hedges

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

For fair value hedges 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.

2. ACCOUNTING POLICIES (CONTINUED)

Financial liabilities and equity instruments (continued)

Hedging (continued)

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.

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.

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

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

Embedded derivatives

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

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

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

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

2. ACCOUNTING POLICIES (CONTINUED)

Segmental information

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

Provisions for decommissioning and other obligations

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

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

Revenue recognition

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

Sale of goods

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

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

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

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

2. ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (continued)

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.

Construction contracts

According to Accounting policies and procedures the Group applied IAS 11 *Construction Contracts* meeting the following criteria:

- individual contract value is in excess of HRK 3 million
- the contract period is over twelve months.

The Company accounts for its construction contracts using the percentage of completion method, which is determined based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs.

Determining the accounting treatment for construction contract revenue and costs:

- project costs are reported as costs incurred,
- revenue is recognised based on the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs,
- estimated losses are presented in full whenever loss is estimated as outcome and can be measured reliably.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Critical judgements and estimates in applying accounting policies

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

The preparation of financial statements in conformity with International Financial Reporting 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.

These judgements and estimates 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 it 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 property, plant and equipment

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 product prices, operating and capital expenditures, discount rates, period of cash flow projections, as well as assumptions and judgments used in determining cash receipts and payments. The impairment of assets in the consolidated statement of profit or loss amounted to HRK 1,116 million in 2015 (2014: HRK 1,784 million). Additionally, effect of retranslation relating to this impairment of HRK 332 million was also recognized in profit and loss statement in 2015.

Carrying value of goodwill

In 2015 based on impairment testing for goodwill impairment in amount of HRK 31 million was recorded (see note 16), while there was no impairment in 2014. The carrying amount of goodwill amounted to HRK 152 million as of 31 December 2015, (2014: HRK 183 million) (see note 16).

Carrying value of intangible exploration and appraisal assets

The carrying amount of intangible exploration and appraisal assets amounted to HRK 196 million as of 31 December 2015 and HRK 299 million 2014 (see note 14). In 2015 in INA Group financial statements the impairment of intangible exploration and appraisal assets is recognized in the amount of HRK 102 million (2014: HRK 107 million) (see note 14). Additionally, effect of retranslation relating to this impairment of HRK 29 million was also recognized in profit and loss statement in 2015.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Critical judgements and estimates in applying accounting policies (continued)

Carrying value of production oil and gas assets

The carrying amount of production oil and gas assets amounted to HRK 3,873 million as of 31 December 2015 and HRK 4,332 million 2014 (see note 15). In 2015 in INA Group financial statements the impairment is recognized in the amount of HRK 951 million (2014: HRK 1,380 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 5,106 million as of 31 December 2015 and HRK 5,073 million in 2014. As a consequence of favourable oil price for 2015 reversal of impairment is recognised in the amount of HRK 53 million, (HRK 385 million of impairment was recognized in 2014). (see note 15).

Key assumptions used

Refining and Marketing BD

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

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

Change in the estimates of these premises would influence the net present value (NPV) of the CGU, having an impact on the amount of potential 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:

- Crude oil and natural gas prices
- Discount rates

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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Critical judgements and estimates in applying accounting policies (continued)

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).

INA, d.d. is the operator at the Aphamia exploratory block. INA, d.d. has acquired 270 km^2 3D seismic on the basis of which two exploration wells were drilled. Oil saturated layers at Mudawara and Beer As Sib structures have been determined. Total capital expenditures amount to approximately to USD 61 million in Aphamia Block and USD 1,024 million in Hayan Block. 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. August 2011 was the last month for which INA invoices were paid in full.

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. The production in Hayan Block is still ongoing, however the Group has not recognized production volumes since the announcement of Force Majeure.

Due to continuous operations of the assets, the physical deterioration of surface facilities has been recognized - 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 2015 was recognized in amount of HRK 56 million (2014: HRK 306 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).

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Critical judgements and estimates in applying accounting policies (continued)

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

The most significant variables in determining cash flows are the assumptions and estimates used to determine the future annual production volumes, 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), operating expenses, probabilities relating to different scenarios, discount rates, the period for which cash flow projections are made as well as the incremental rebuilding costs.

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

a) Destruction: the properties are subject to physical damage as a result of targeted or accidental attacks. In case of only partial damage, return to operation is still possible, while in case of full damage of properties, no return is assumed.

b) Return to operation: after crisis settlements and full or partial removals of sanctions the Group expects to return to operations within 2 to 5 years.

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 17.1% (see note 15). Based on multiple-scenario discounted cash flow calculations for year 2015 the Group has recorded impairment in amount of HRK 376 million, from which HRK 274 million on tangible assets and HRK 102 million on intangible assets which includes asset-under-construction on Aphamia Block. Additionally, effect of retranslation relating to this impairment of HRK 93 million was also recognized in profit and loss statement, from which HRK 64 million refers to retranslation effect on impairment of tangible assets and HRK 29 million refers to retranslation effect on impairment of assets-under-construction on Aphamia Block.

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, d.d. 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.

Currently the company records 100% impairment on the receivables from EGPC overdue by more than 60 days.

The Group has recorded impairment in amount of HRK 130 million on tangible assets. Additionally, effect of retranslation relating to this impairment of HRK 29 million was also recognized in profit and loss statement.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Critical judgements and estimates in applying accounting policies (continued)

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 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 decommissioning provision for oil and gas properties amounted to HRK 2,457 million as at 31 December 2015 (31 December 2014: HRK 2,253 million) for INA, d.d. (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 in provision based environmental liabilities. 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 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, 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 2015 INA Group recognized environmental provision in amount HRK 333 million (2014: HRK 309 million) (see note 32), which covers investigation to determine the extent of contamination at specific site, treatment of accumulated waste generated by former activity, preliminary site investigation with corresponding laboratory analyses, soil excavation and replacement during the reconstruction of filling stations. It does not cover the cost of remediation in lack of detailed National regulations.

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

A deferred tax asset is recognized for unused tax losses and other temporary tax differences to the extent that it is probable that the related tax benefit will be realise against future taxable profits. Determining the amount of deferred taxes that can be recognised requires a significant level of judgement, which is based on the probable quantification of the time and level of future taxable profits, together with the future tax planning strategy. At 31 December 2015 the carrying amount of deferred tax assets of the INA Group amounted to HRK 2,094 million (2014: HRK 1,742 million) and deferred tax liabilities amounted HRK 22 million (2014: HRK 9 million). At 31 December 2015 the carrying amount of deferred tax assets of INA, d.d. amounted to HRK 1,995 million, (31 December 2014: HRK 1,702 million respectively) (see note 12).

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Critical judgements and estimates in applying accounting policies (continued)

Actuarial estimates used 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 109 million as at 31 December 2015 (31 December 2014: HRK 184 million), and INA, d.d. amounted to HRK 70 million as at 31 December 2015 (31 December 2014: HRK 136 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 review of asset useful life at the end of 2015 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 expenditures. 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 expenditures are accounted for using the successful efforts method. In accordance with that method the license and data provision costs and costs associated with geological and geophysical activities are charged to the statement of profit or loss period in which they are incurred.

The Group estimates and reports hydrocarbon reserves in line with the principles contained in the SPE Petroleum Resources Management Reporting System (PRMS) framework. As the economic assumptions used 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.

(all amounts are presented in HRK millions)

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Reclassification position of profit and loss account

In 2015 in order to ensure consistence of presentation with current year the Company and the Group reclassified realised profit on non-hedge accounted derivative instruments from finance income and finance expense to other operating income. The effect of reclassification of profit and loss account is as follows:

INA Group

	2014 before reclassification	Realized profit on non-hedge accounted derivative instruments	2014 reclassified
Other operating income	**277**	(10)	**267**
Finance revenue	**234**	(26)	**208**
Finance cost	**(856)**	36	**(820)**
Total	**(345)**	-	**(345)**

INA, d.d.

	2014 before reclassification	Realized profit on non-hedge accounted derivative instruments	2014 reclassified
Other operating income	**361**	(10)	**351**
Finance revenue	**807**	(26)	**781**
Finance cost	**(765)**	36	**(729)**
Total	**403**	-	**403**

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.

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. Elimination of unrealized profit (difference between transfer price and cost of domestic crude) is performed through intersegment transfer.

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

(all amounts are presented in HRK millions)

4. SEGMENT INFORMATION (CONTINUED)

BY BUSINESS

INA Group

2015	Exploration and production	Refining and marketing	Corporate and other	Intersegment transfers and consolidation adjustments	Total
Sales to external customers	2,843	14,795	1,223	-	18,861
Intersegment sales	2,127	36	1,125	(3,288)	-
Total revenue	**4,970**	**14,831**	**2,348**	**(3,288)**	**18,861**
Operating expenses, net of other operating income	(4,598)	(16,156)	(2,856)	3,411	(20,199)
Profit/(loss) from operations	**372**	**(1,325)**	**(508)**	**123**	**(1,338)**
Net finance loss					(411)
Loss before tax					(1,749)
Income tax benefit					331
Loss for the year					**(1,418)**

2014	Exploration and production	Refining and marketing	Corporate and other	Intersegment transfers and consolidation adjustments	Total
Sales to external customers	4,039	18,187	1,533	-	23,759
Intersegment 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)	(20,721)	(2,849)	3,860	(25,481)
Profit/(loss) from operations	**961**	**(2,499)**	**(184)**		**(1,722)**
Net finance loss					(612)
Loss before tax					(2,334)
Income tax benefit					437
Loss for the year					**(1,897)**

(all amounts are presented in HRK millions)

4. SEGMENT INFORMATION (CONTINUED)

BY BUSINESS (continued)

INA Group

31 December 2015 **Assets and liabilities**	**Exploration and production**	**Refining and marketing**	**Corporate and other**	**Intersegment transfers and consolidation adjustments**	**Total**
Property, plant and equipment	6,056	5,130	1,692	(148)	12,730
Intangible assets	224	45	119	-	388
	22	-	-	-	22
Inventories	164	1,604	227	(175)	1,820
Trade receivables, net	582	790	611	(259)	1,724
Not allocated assets					3,698
Total assets					**20,382**
Trade payables	371	837	451	(259)	1,400
Not allocated liabilities					8,397
Total liabilities					**9,797**
Other segment information					
Property, plant and equipment	814	608	208	(37)	1,593
Intangible assets	16	5	26	-	47
Capital expenditure:	**830**	**613**	**234**	**(37)**	**1,640**
Depreciation and amortisation	**1,468**	**533**	**190**	**-**	**2,191**
Total impairment charges, net *	**1,218**	**8**	**301**	**19**	**1,546**

* See note 8.

(all amounts are presented in HRK millions)

4. SEGMENT INFORMATION (CONTINUED)

BY BUSINESS (continued)

INA Group

31 December 2014 **Assets and liabilities**	**Exploration and production**	**Refining and marketing**	**Corporate and other**	**Intersegment transfers and consolidation adjustments**	**Total**
Property, plant and equipment	7,270	5,107	1,774	(113)	14,038
Intangible assets	318	19	120	-	457
Investments in associates	22	-	-	-	22
Inventories	152	1,844	262	(334)	1,924
Trade receivables, net	630	983	701	(316)	1,998
Not allocated assets					3,776
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	1,092	471	143	(57)	1,649
Intangible assets	8	3	29	-	40
Capital expenditure:	**1,100**	**474**	**172**	**(57)**	**1,689**
Depreciation and amortisation	**1,344**	**570**	**218**	**-**	**2,132**
Total impairment charges/(income), net *	**1,479**	**567**	**27**	**(21)**	**2,052**

* See note 8.

(all amounts are presented in HRK millions)

4. SEGMENT INFORMATION (CONTINUED)

BY GEOGRAPHICAL

INA Group

31 December 2015	**Republic of Croatia**	**Syria**	**Egypat**	**Angola**	**Other countries**	**Total**
Property, plant and equipment	11,554	291	153	109	623	12,730
Intangible assets	366	-	-	-	22	388
Investments in associates	22	-	-	-	-	22
Inventories	1,690	-	30	-	100	1,820
Trade receivables, net	1,034	-	81	44	565	1,724
Not allocated assets						3,698
Total assets						**20,382**
Other segment information						
Property, plant and equipment	1,323	-	109	56	105	1,593
Intangible assets	47	-	-	-	-	47
Capital expenditure:	**1,370**	-	109	56	105	**1,640**

INA Group

31 December 2014	**Republic of Croatia**	**Syria**	**Egypat**	**Angola**	**Other countries**	**Total**
Property, plant and equipment	12,651	620	7	-	760	14,038
Intangible assets	318	118	-	-	21	457
Investments in associates	22	-	-	-	-	22
Inventories	1,787	3	31	-	103	1,924
Trade receivables, net	1,154	-	9	-	835	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**

(all amounts are presented in HRK millions)

4. SEGMENT INFORMATION (CONTINUED)

INA Group

	Revenues from external customers	
	2015	**2014**
Republic of Croatia	11,116	14,187
Bosnia and Hercegovina	2,098	2,777
Switzerland	1,156	1,618
Slovenia	773	778
Other countries	3,718	4,399
	18,861	**23,759**

INA, d.d.

	Revenues from external customers	
	2015	**2014**
Republic of Croatia	10,870	13,394
Bosnia and Hercegovina	1,838	2,450
Switzerland	1,156	1,537
Slovenia	666	639
Other countries	2,631	3,059
	17,161	**21,079**

Information about major customers

In 2015 and 2014 there was no single customer which would contribute to the Group's revenue 10% or more.

5. OTHER OPERATING INCOME

	INA Group		**INA, d.d.**	
	2015	**2014**	**2015**	**2014**
Income from termination of contracts	172	2	66	-
Profit from sale of assets	57	24	26	16
Income from rental activities	42	52	62	71
Surpluses	22	31	20	36
Non-hedging commodity derivative	19	(10)	19	(10)
Penalty interest from customers	12	16	11	123
Commission fee	12	13	12	12
Additional discounts from contracts	10	36	5	36
Income from collected damage claims	3	28	12	17
Income from contractual penalties	1	4	1	2
Other	98	71	68	48
Total	**448**	**267**	**302**	**351**

(all amounts are presented in HRK millions)

6. DEPRECIATION AND AMORTISATION

	INA Group		INA, d.d.	
	2015	**2014**	**2015**	**2014**
Depreciation of property, plant and equipment (note 15 b)	2,156	2,097	2,044	1,947
Amortisation of intangible assets (note 14)	35	35	34	33
	2,191	**2,132**	**2,078**	**1,980**

7. STAFF COSTS

	INA Group		INA, d.d.	
	2015	**2014**	**2015**	**2014**
Net payroll	1,191	1,250	780	766
Tax and contributions for pensions and health insurance	824	861	575	557
Other payroll related costs	407	356	263	165
	2,422	**2,467**	**1,618**	**1,488**

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.	
	2015	**2014**	**2015**	**2014**
	Number of employees	Number of employees	Number of employees	Number of employees
Exploration and production	1,328	1,465	1,327	1,464
Refining and marketing	6,052	6,518	5,301	5,685
Corporate function	3,876	4,520	724	1,001
	11,256	**12,503**	**7,352**	**8,150**

(all amounts are presented in HRK millions)

8. IMPAIRMENT CHARGES (NET)

	INA Group		INA, d.d.	
	2015	**2014**	**2015**	**2014**
Impairment of tangible and intangible assets, net*	1,215	1,891	1,004	1,872
Impairment of trade receivables, net	177	(4)	116	(2,067)
Impairment of inventory, net	99	89	69	119
Impairment of goodw ill	31	-	-	-
Writte-off PP&E and intangibles, net	11	11	11	10
Other impairment, net	13	65	13	59
	1,546	**2,052**	**1,213**	**(7)**

* See note 15.

In 2014 an amount of HRK 2,067 million of income from trade receivables mostly relates 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 income (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.	
	2015	**2014**	**2015**	**2014**
Provision for incentives	150	46	160	45
Provision for Angolan taxes	99	-	99	-
Provision for emmision rights	20	9	20	9
Provision for employees benefits	25	45	22	41
Provision/(utilisation) for contractual liabilities for taxation	2	(88)	-	(79)
(Utilisation)/provision for retirement and jubilee benefits	(20)	30	(34)	23
(Utilisation)/provision for legal claims	(21)	28	(19)	34
(Utilisation)/provision for unused holidays	(15)	24	(4)	-
Utilisation of provision for enviromental liabilities	(2)	(10)	(2)	(10)
Provision for other provisions	27	24	6	16
	265	**108**	**248**	**79**

(all amounts are presented in HRK millions)

10. FINANCE INCOME

	INA Group		INA, d.d.	
	2015	2014	2015	2014
Foreign exchange gains from trade receivables and payables	79	108	34	57
Foreign exchange gains from loans and cash	76	74	69	69
Interest received and other financial income	21	19	166	644
Positive fair value changes of embedded derivatives	14	-	14	-
Dividends received	7	7	7	7
Profit allocation received from subsidiaries	-	-	16	4
	197	**208**	**306**	**781**

11. FINANCE COSTS

	INA Group		INA, d.d.	
	2015	2014	2015	2014
Foreign exchange losses from loans and cash	212	302	142	227
Other interest expense	117	150	114	145
Fees on bank loans	84	59	82	57
Foreign exchange losses from trade receivables and payables	74	96	37	69
Foreign exchange losses from provisions	65	20	65	20
Interest for long-term loans	24	55	24	51
Interest expense regarding tax resolutions	11	108	10	108
Negative fair value changes of embedded derivatives	-	1	-	14
Capitalized borrowing costs	(11)	(10)	(11)	(10)
Impairment of investment in subsidiaries	-	-	145	19
Other financial costs	32	39	30	29
	608	**820**	**638**	**729**

(all amounts are presented in HRK millions)

12. TAXATION

	INA Group		INA, d.d.	
	2015	**2014**	**2015**	**2014**
Current tax expense	43	204	28	174
Deferred tax (income)/charge related to origination and reversal of temporary differences	(374)	(641)	(324)	(655)
Income tax (benefit)/expense	**(331)**	**(437)**	**(296)**	**(481)**

Tax on profit generated in Croatia is determined by applying the rate of 20 percent, both in 2015 and 2014, 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.	
	2015	**2014**	**2015**	**2014**
(Loss)/profit before tax	(1,749)	(2,334)	(1,498)	150
(Benefit)/expense tax calculated at 20%	(350)	(467)	(300)	30
Tax loss previously not recognized and recognition of deffered tax assets previously not recognised	(29)	(432)	(18)	(533)
Effect of different tax rates of entities operating in other jurisdictions	37	17	23	32
Tax effect of permanent differences	(16)	131	(21)	(315)
Tax effect of previous years	27	314	20	305
Income tax (benefit)	**(331)**	**(437)**	**(296)**	**(481)**

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

(all amounts are presented in HRK millions)

12. TAXATION (CONTINUED)

INA Group	Impairment of current assets	Impairment of tangible and intangible assets	Reversal of depreciation for impaired asset	Other provisions	Impairment of financial investments	Subsequent tax liability from tax inspection	Tax losses	Total
Balance at 1 January 2014	**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**
Charge directly to equity	-	-	-	(11)	(24)	-	-	(35)
Reversal of temporary differences	(3)	(43)	(105)	(35)	(30)	(45)	-	(261)
Origination of temporary differences	40	249	-	45	68	-	233	635
Balance at 31 December 2015	**78**	**1,368**	**(348)**	**200**	**125**	**-**	**649**	**2,072**

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 2014	**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**
Charge directly to equity	-	-	-	(7)	(24)	-	-	(31)
Reversal of temporary differences	(3)	(42)	(106)	(30)	(30)	(45)	-	(256)
Origination of temporary differences	38	237	-	55	32	-	218	580
Balance at 31 December 2015	**63**	**1,363**	**(349)**	**199**	**75**	**-**	**644**	**1,995**

13. EARNINGS PER SHARE

	INA Group	
	31 December 2015	**31 December 2014**
Basic and diluted loss per share (in HRK)	**(141.78)**	**(189.66)**

Earnings

	INA Group	
	31 December 2015	**31 December 2014**
Loss used in the calculation of total basic earnings per share	(1,418)	(1,897)
	(1,418)	**(1,897)**

Number of shares

	INA Group	
	31 December 2015	**31 December 2014**
	Number of shares	Number of shares
Weighted average number of ordinary shares for the purposes of basic earnings per share (in millions)	10	10

On 12 June 2015 Regular Shareholders' Assembly of INA, d.d. was held and decision on dividend pay-out in amount of HRK 150 million was voted (HRK 15 per share).

(all amounts are presented in HRK millions)

14. INTANGIBLE ASSETS

INA Group	Oil and gas properties	Software	Patents, Liciences and other rights	Intengible assets under construction	Total
Balance at 1 January 2014	**378**	**99**	**9**	**38**	**524**
Additions	(3)	-	-	43	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	**299**	**119**	**12**	**27**	**457**
Additions	1	-	-	46	47
Amortisation	-	(32)	(3)	-	(35)
Foreing exchange translation of foreign operations	(2)	-	-	-	(2)
Impairment	(102)	-	3	-	(99)
Emmission allowances (net)	-	-	23	-	23
Transfer	-	40	1	(41)	-
Transfer to property, plant and equipment	-	1	-	(4)	(3)
Balance at 31 December 2015	**196**	**128**	**36**	**28**	**388**

(all amounts are presented in HRK millions)

14. INTANGIBLE ASSETS (CONTINUED)

INA, d.d.	Oil and gas properties	Software	Patents, Liciences and other rights	Intengible assets under construction	Total
Balance at 1 January 2014	**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**
Additions	1	-	-	45	46
Amortisation	-	(32)	(2)	-	(34)
Foreing exchange translation of foreign operations	(2)	-	-	-	(2)
Impairment / Reversal	(102)	-	3	-	(99)
Transfer	-	40	1	(41)	-
Transfer to property, plant and equipment	-	1	-	(4)	(3)
Emmission allowances (net)	-	-	23	-	23
Other	-	-	(1)	-	(1)
Balance at 31 December 2015	**196**	**128**	**33**	**28**	**385**

At 31 December 2015 INA Group impairment of intangible assets is amounted to HRK 99 million, consisting of impairment of wells in Syria in amount of HRK 102 million and reversal of previous years impairment in amount of HRK 3 million in BS Refining and marketing. In 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).

(all amounts are presented in HRK millions)

15. PROPERTY, PLANT AND EQUIPMENT

a) By business segment

INA Group

	Oil and gas exploration and production	Refining and marketing	Other	Total
Balance at 1 January 2014				
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**
Balance at 31 December 2015				
Cost	38,159	20,771	7,015	**65,945**
Accumulated depreciation	32,226	15,665	5,324	**53,215**
Net book value	**5,933**	**5,106**	**1,691**	**12,730**

INA, d.d.

	Oil and gas exploration and production	Refining and marketing	Other	Total
Balance at 1 January 2014				
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**
Balance at 31 December 2015				
Cost	38,365	20,244	1,921	**60,530**
Accumulated depreciation	32,254	15,208	1,526	**48,988**
Net book value	**6,111**	**5,036**	**395**	**11,542**

(all amounts are presented in HRK millions)

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

b) By asset type

INA Group

	Oil and gas properties	Land and buildings	Plant and machinery	Vehicles and office equipment	Collective Consumption assets	Assets under construction	Total
Cost							
Balance at 1 January 2014	**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)	-
Transfer from intangible assets	-	-	4	-	-	(4)	-
Transfer	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**
Additions	-	-	-	-	-	1,593	1,593
Change in capitalised decommissioning costs	127	-	-	-	-	-	127
Foreign exchange translation of foreign operations	321	-	-	-	-	-	321
Assets put in use	1,421	206	480	57	-	(2,164)	-
Transfer to intangible assets	-	-	4	-	-	(1)	3
Disposal of subsidiaries	-	-	(9)	(22)	-	-	(31)
Disposals	(84)	(101)	(129)	(42)	(1)	(13)	(370)
Currency translation	-	(1)	(26)	4	-	(2)	(25)
Assets held for sale	-	(1)	(13)	(2)	-	-	(16)
Other movements	-	4	(1)	(1)	-	(61)	(59)
Balance at 31 December 2015	**34,024**	**12,112**	**14,698**	**2,351**	**38**	**2,722**	**65,945**

(all amounts are presented in HRK millions)

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

b) By asset type (continued)

INA Group

	Oil and gas properties	Land and buildings	Plant and machinery	Vehicles and office equipment	Collective Consumption assets	Assets under construction	Total
Accumulated depreciation							
Balance at 1 January 2014	**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**
Charge for the year	1,441	215	422	78	-	-	2,156
Impairment (net)	951	(44)	207	1	-	1	1,116
Reclassification between categories	-	8	163	3	-	(174)	-
Assets held for sale	-	(1)	(12)	(2)	-	-	(15)
Sale of subsidiaries	-	-	(9)	(21)	-	-	(30)
Disposals	(84)	(47)	(160)	(17)	(1)	(51)	(360)
Currency translation	-	-	(22)	4	-	-	(18)
Other	(64)	(34)	(1)	(1)	-	102	2
Balance at 31 December 2015	**30,151**	**8,771**	**11,754**	**2,229**	**25**	**285**	**53,215**

(all amounts are presented in HRK millions)

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

b) By asset type (continued)

INA Group

	Oil and gas properties	Land and buildings	Plant and machinery	Vehicles and office equipment	Collective Consumption assets	Assets under construction	Total
Carrying amount							
Balance at 31 December 2015	3,873	3,341	2,944	122	13	2,437	12,730
Balance at 31 December 2014	4,332	3,331	3,226	173	13	2,963	14,038

(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 2014	**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**
Additions	-	-	-	-	-	1,402	1,402
Change in capitalised decommissioning costs	197	-	-	-	-	-	197
Foreign exchange translation of foreign operations	321	-	-	-	-	-	321
Transfer from intangible assets	-	-	4	-	-	(1)	3
Transfer of assets (mergers/liquidation)	-	75	10	7	-	-	92
Assets put in use	1,485	203	268	38	-	(1,994)	-
Disposals	(84)	(91)	(98)	(55)	(1)	(13)	(342)
Other	(64)	167	16	31	11	64	225
Balance at 31 December 2015	**34,133**	**10,697**	**10,931**	**1,939**	**38**	**2,792**	**60,530**

(all amounts are presented in HRK millions)

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

b) By asset type (continued)

INA, d.d.	**Oil and gas properties**	**Land and buildings**	**Plant and machinery**	**Vehicles and office equipment**	**Collective Consumption assets**	**Assets under construction**	**Total**
Accumulated depreciation							
Balance at 1 January 2014	**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	-
Reclassification between categories	(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**
Charge for the year	1,441	192	346	64	1	-	2,044
Impairment (net)	951	(44)	(3)	1	-	1	906
Transfer of assets (mergers/liquidation)	-	50	10	6	-	-	66
Transfers	-	8	163	3	-	(174)	-
Disposals	(84)	(76)	(95)	(53)	(1)	(13)	(322)
Other	(64)	167	17	31	11	64	226
Balance at 31 December 2015	**30,154**	**7,624**	**9,082**	**1,681**	**34**	**413**	**48,988**

(all amounts are presented in HRK millions)

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

b) By asset type (continued)

Carrying amount							
Balance at 31 December 2015	**3,979**	**3,073**	**1,849**	**258**	**4**	**2,379**	**11,542**
Balance at 31 December 2014	**4,368**	**3,016**	**2,087**	**289**	**5**	**2,799**	**12,564**

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 2015 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 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 1,116 million in 2015 (2014: HRK 1,784 million).

- Exploration and Production BD recorded an impairment of property, plant and equipment in amount of HRK 951 million in 2015, compared to impairment in amount of HRK 1,380 million in 2014. Oil and gas price assumptions used in the value in use models used for impairment testing were the following: 40 to 60 USD / barrel for the years from 2016 to 2018 and the long term oil price assumed for the years after 2018 was 60 USD / barrel real. Based on the value in use calculation following recoverable amount and impairment by CGU have been determined at 31 December 2015:

    - CGU Syria – assessed recoverable amount of HRK 290 million. Impairment of HRK 274 million was recognized at 31 December 2015. Additionally effect retranslation relating to this impairment of HRK 64 million was also recognized in profit or loss statement in 2015.
    - Egypt – assessed recoverable amount of HRK 46 million (Egypt RQ HRK 2 million; Egypt WAG HRK 1 million; Egypt NB HRK 43 million). Impairment of HRK 130 million (Egypt RQ HRK 36 million; Egypt WAG HRK 25 million; Egypt NB HRK 47 million; Egypt SR HRK 22 million) was recognized at 31 December 2015. Additionally, effect of retranslation relating to this impairment of HRK 29 million was also recognized in profit or loss statement in 2015.
    - Angola – assessed recoverable amount of HRK 96 million (Angola 3/05 HRK 96 million). Impairment of HRK 146 million (Angola 3/05 HRK 12 million; Angola 3/05A HRK 94 million; Angola 1/82 HRK 40 million) was recognized at 31 December 2015. Additionally, effect of retranslation relating to this impairment of HRK 38 million was also recognized in profit or loss statement in 2015.
    - Croatia offshore – assessed recoverable amount of HRK 1,072 million (NACA HRK 888 million; Isabella HRK 184 million). Impairment of HRK 335 million (NACA HRK 293 million; Isabella HRK 42 million) was recognized at 31 December 2015. Additionally, effect of retranslation relating to this impairment of HRK 201 million (NACA HRK 210 million; Isabella HRK -9 million) was also recognized in profit or loss statement in 2015.
    - Croatia onshore - assessed recoverable amount of HRK 27 million. Impairment of HRK 42 million (Števkovica HRK 10 million; Other HRK 32 million) was recognized at 31 December 2015.
    - Negative wells – impairment in amount of HRK 24 million (Onshore – Hrastilnica 5).

- Refinery and Marketing BD recorded reversal of impairment of property, plant and equipment in amount of HRK 45 million in 2015 (HRK 16 million retail impairment assets and HRK 61 million reversal of retail impairment), compared to impairment in amount of HRK 385 million in 2014 (HRK 395 million impairment of refinery and HRK 10 million reversal of retail impairment).

(all amounts are presented in HRK millions)

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

- Business functions BD and others recorded an impairment of property, plant and equipment in amount of HRK 209 million in 2015, compared to 2014 when impairment was in amount of HRK 19 million. In 2015, the impairment loss recognized in profit and loss statement in amount of HRK 153 million represent the write-down of Platform Zagreb-1 to the recoverable amount of HRK 140 million as a result of the unexpected poor performance and was determined at the level of the CGU that is consisted of the assets of Platform Zagreb 1, in ownership of Crosco B.V. In determining value in use for the CGU, the cash flows were discounted at a rate of 9.6% per annum on a pre-tax basis.

Discount rates used in the current assessment in 2015 and for 2014 are assets specific and are as follows:

Exploration and Production	**2015**	**2014**
Croatia	9.60%	9.80%
Syria	17.10%	17.30%
Egypt	14.10%	14.30%
Angola	13.10%	13.30%
Refining and Marketing		
Croatia	9.60%	9.80%
Bosnia and Herzegovina	13.10%	13.30%

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. Useful life of decommissioning assets has been adjusted to reflect the economic life of fields.

(all amounts are presented in HRK millions)

16. GOODWILL

	INA Group	
	2015	**2014**
Cost	296	296
Accumulated impairment losses	(144)	(113)
	152	**183**

	2015	2014
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	(31)	-
Balance at the end of year	**(144)**	**(113)**

Net book value	**31 December 2015**	**1 January 2015**
Investment of Crosco, d.o.o. in Rotary Zrt. Hungary	152	183
Total	**152**	**183**

During 2015 and 2014 goodwill relating to the company Rotary Zrt. was tested for impairment and the test showed that the impairment is required in amount of HRK 31 million at 31 December 2015 while no impairment was recorded in 2014.

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 9.60 % per annum (2014: 9.50% per annum).

16. GOODWILL (CONTINUED)

The Group performed its annual impairment test in December 2015 and 2014. The overall decline in oil and gas activities around the world, as well as the ongoing economic uncertainty, has led to a decreased demand of drilling services.

The recoverable amount of Rotary Zrt. business as at 31 December 2015, has been determined based on a value in use calculation using cash flow projections from financial budgets approved by Company top management covering a five-year period. The projected cash flows have been updated to reflect the decreased demand for services.

The weighted average cost of capital applied to cash flow projections is 9.6% (2014: 9.5%) and cash flows beyond the five-year period are prepared taking into consideration utilization days of Rotary's assets, average daily rates based on past experience and future predictions in the projected period without subsequent growth. Expenses are determined also in relation to the utilization of the assets.

The Group was concluded that the fair value less costs of disposal did not exceed the value in use. As a result of this analysis, management has recognized an impairment charge of HRK 31 million in the current year against goodwill with a carrying amount of HRK 183 million as of 31 December 2014. The impairment charge is recorded within impairment charges in the statement of profit or loss.

The calculation of Rotary's net present value is most sensitive to the following assumptions:

- Daily rates
- Utilization
- Discount rates
- Employee cost

Change in the estimates of these premises would influence the net present value (NPV) of the CGU, having an impact on the amount of impairment recognized in relation to Rotary's net realisable value.

Forecast daily rate prices and utilization days are based on management's estimates and available market data. Discount rates represent the current market assessment of the risks specific to Rotary Zrt., 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 Rotary Zrt.

(all amounts are presented in HRK millions)

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

	INA, d.d.	
	31 December 2015	31 December 2014
Investments in subsidiaries	1,000	1,133

	INA, d.d.	
	2015	2014
Investments in subsidiaries at 1 January	1,133	1,127
INTERINA d.o.o. LJUBLJANA -additional capitalization by intragroup loan	-	14
INA-Osijek Petrol d.d. - merger to INA d.d.	(40)	-
POLYBIT d.o.o - liquidation	(4)	-
ITR d.o.o- merger to STSI d.o.o.	(42)	-
Crosco d.o.o. - impairment	(133)	-
Other subsidiaries - impairment	-	(8)
Other subsidiaries - reversal of impairment due to merger and liquidation	86	-
Total as of 31 December	**1,000**	**1,133**

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

The following portfolio changes were recorded in 2015:

Based on INA, d.d. Management Board decision on merger of ITR d.o.o. to STSI d.o.o. dated on 3 December 2014, Commercial Court in Zagreb registered the merger of ITR d.o.o. to STSI d.o.o. in Court register on 7 January 2015.

Liquidation process for company Holdina Guernsey Ltd was completed as of 7 July 2015. Foreign currency translation reserves on INA Group level in amount of HRK 15 million are recycled through profit and loss statement as expense for current year.

Liquidation process for company Polybit d.o.o. was completed as of 12 November 2015, when liquidation was of company was registered at the Court register. Based on INA, d.d. Management Board decision, as sole founder of Polybit all assets of company in amount of HRK 2 million were transferred to INA, d.d. and investment in Polybit is derecognized and previously recognized impairment of investment reversed in amount of HRK 4 million.

Sales and transfer of shares agreement for Petrol d.d. Jurdani, was concluded as of 2 November 2015 between INA d.d., and Croatian pension insurance institute, based on which INA, d.d. purchased 8,504 shares based on price on public tendering in amount of HRK 238 thousand and became 100% owner of Petrol d.d. Jurdani shares.

INA, d.d. Management Board in the function of INA Osijek Petrol Assembly adopted decision on merger of INA Osijek Petrol to INA, d.d. on 26 August 2015. Commercial Court in Zagreb registered the merger of INA Osijek Petrol d.d. to INA in court register on 2 November 2015.

Upon legal merger balances of INA Osijek Petrol were transferred at net book values and loss of HRK 94 million decreased retained earnings of INA d.d.

Legal merger of INA-Osijek Petrol d.d. resulted with reversal of previously impaired loan in INA given to INA Osijek Petrol in profit and loss statement in amount of HRK 72 million.

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

Based on INA, d.d. Management Board decision from 28 October 2015. Company PLAVI TIM d.o.o. for IT services was established with HRK 100 thousand share capital paid in cash. The Company was registered in the Court register as of 4 November 2015 as 100% INA, d.d. owned subsidiary.

At 31 December 2015 the Company recognized impairment of investment in Crosco d.o.o. of HRK 133 million.

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

During 2015 simplified decrease of share capital has been performed in the following INA Group companies: STSI, Croplin, INA Maziva and Hostin.

During 2015 CROSCO d.o.o. has sold its share in subsidiary Mideast Integrated Drilling and Well Services Llc. Oman. Before the sale CROSCO held 49% of share in Mideast Integrated Drilling and Well Services Llc but had 100% control and it is was consolidated in financial statement.

(all amounts are presented in HRK millions)

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

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

Composition of the Group

The name of subsidiaries	Principal activity	Place of incorporation and operation	**Proportion of ownership interest and voting power held by the Group**	
			31 December 2015	31 December 2014
Oilfield services				
*Crosco Naftni Servisi d.o.o.	Oilfield services	Croatia	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 International Limited	Oilfield services	Guernsey	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%
Oil exploration and production				
*INA Naftaplin International Exploration and Production Ltd	Oil exploration and production	Guernsey	100%	100%
Tourism				
*Hostin d.o.o. Zagreb	Tourism	Croatia	100%	100%
Ancillary services				
*STSI integrirani tehnički servisi d.o.o.	Technical services	Croatia	100%	100%
*ITR d.o.o.	Car rental	Croatia	-	100%
*Top računovodstvo servisi d.o.o.	Accounting services	Croatia	100%	100%
*PlaviTim d.o.o. (from November 2015)	Informatical service	Croatia	100%	-
Production and trading				
*INA Maziva d.o.o.	Production and lubricants trading	Croatia	100%	100%

(all amounts are presented in HRK millions)

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

Composition of the Group (continued)

The name of subsidiaries	Principal activity	Place of incorporation and operation	**Proportion of ownership interest and voting power held by the Group**	
			31 December 2015	31 December 2014
Trading and finance				
*Interina d.o.o.	Foreign trading	Slovenia	100%	100%
*INA BH d.d.	Foreign trading	Bosnia and Herzegovina	100%	100%
*Holdina (Guernsey) Ltd	Foreign trading	Guernsey	-	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%
*INA BL d.o.o.	Trading	Bosnia and Herzegovina	100%	100%
*Petrol d.d.	Trading	Croatia	100%	83%
*INA-Osijek Petrol d.d.	Trading	Croatia	-	100%
*Polybit d.o.o.	Oil production and trading	Croatia	-	100%
*Croplin d.o.o.	Production of gas, distribution network of gas fuels	Croatia	100%	100%
*INA Maloprodajni servisi d.o.o.	Trade agency in the domestic and foreign market	Croatia	100%	100%

At 31 December 2015 and 31 December 2014 Croplin d.o.o. had 9.1% ownership in Energo d.o.o. Rijeka and 40% ownership in Plinara Istočne Slavonije d.o.o. Vinkovci.

(all amounts are presented in HRK millions)

18. INVESTMENTS IN ASSOCIATES

	INA Group		INA, d.d.	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Investments in associates	22	22	22	22
	22	**22**	**22**	**22**

			INA Group		INA, d.d.	
Name of company	Activity	Proportion of ownership	31 December 2015	31 December 2014	31 December 2015	31 December 2014
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**

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

			INA Group and INA, d.d.	
Name of company	Activity	Place of incorporation and operation	31 December 2015	31 December 2014
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%	50%

*investments that are joint operations

Pursuant to the Sales Contract with 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 owned by the company RWE.

(all amounts are presented in HRK millions)

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 2015	31 December 2014
	Energopetrol	**Energopetrol**
Place of business	Bosnia and Herzegovina	Bosnia and Herzegovina
Percentage of interests	33.5%	33.5%
Current assets	29	62
Non-current assets	268	262
Current liabilities	412	72
Non-current liabilities	332	542
Operating income	1,032	665
Loss for the year	(54)	(37)
Total comprehensive loss for the year	**(54)**	**(37)**
Group' share of loss	-	-
Group´s share of net assets	-	-
Investments in associates	132	132
Impairment	(132)	(132)
Carrying amount of the interest, net	-	-

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

	INA Group and INA, d.d.	
	31 December 2015	**31 December 2014**
Aggregate carrying amount of the interests in these associates	22	22
The Group's share of profit from interest in non individually material associates	-	-

(all amounts are presented in HRK millions)

19. OTHER INVESTMENTS

	INA Group		INA, d.d.	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Deposits	7	17	7	17
Financial assets at fair value through profit or loss	7	6	7	6
Other long-term loans	-	-	678	-
	14	**23**	**692**	**23**

20. LONG-TERM RECEIVABLES

INA Group	31 December 2015	31 December 2014
Receivables for apartments sold	82	94
Prepayments for intangible assets	41	50
Prepayments for property, plant and equipment	17	26
Other long-term receivables	4	-
	144	**170**

INA, d.d.	31 December 2015	31 December 2014
Receivables for apartments sold	82	94
Prepayments for intangible assets	41	50
Prepayments for property, plant and equipment	15	23
Long-term receivables from related party	11	11
	149	**178**

Prior to 1996, the Company 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.

(all amounts are presented in HRK millions)

21. AVAILABLE-FOR-SALE ASSETS

Equity instruments available-for-sale

Name of the Company	% shareholding held by INA, d.d.	Activity	INA Group and INA, d.d. 31 December 2015	INA Group and INA, d.d. 31 December 2014
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 of Jadranski Naftovod d.d.			214	95
Fair value adjustment of Plinara d.o.o. Pula			(2)	(2)
Fair value adjustment of HOC Bjelolasica d.o.o. Ogulin			(5)	(5)
Fair value adjustment of BINA-FINCOM d.d. Zagreb			(12)	(12)
Total fair value adjustment			195	76
			581	**462**

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 2015. The net book value of the equity investment in JANAF increased by HRK 119 million compared to the balance as of 31 December 2014 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 2015 amounted to HRK 4,500.00 per share (31 December 2014: HRK 3,498.98 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.

(all amounts are presented in HRK millions)

22. INVENTORIES

	INA Group		INA, d.d.	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Crude oil	440	303	440	303
Refined products	427	403	375	347
Work in progress	405	603	404	601
Raw material	188	208	127	153
Spare parts, materials and supplies	180	226	76	78
Merchandise	180	181	175	177
	1,820	**1,924**	**1,597**	**1,659**

As of 31 December 2015 and 2014, inventories were measured at the lower of cost or net realizable value.

23. TRADE RECEIVABLES, NET

	INA Group		INA, d.d.	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Trade receivables	2,764	2,916	1,994	2,051
Impairment of trade receivables	(1,040)	(918)	(818)	(652)
	1,724	**1,998**	**1,176**	**1,399**

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

	INA Group		INA, d.d.	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
less 30 days	98	56	63	32
31 - 60 days	24	31	17	18
61+ days	198	182	175	163
	320	**269**	**255**	**213**

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.

(all amounts are presented in HRK millions)

23. TRADE RECEIVABLES, NET (CONTINUED)

Impairment of trade receivables:

	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Balance at beginning of the year	918	924	652	529
Effect of merger	-	-	32	115
Impairment losses recognised on receivables	338	276	315	297
Amounts written off as uncollectible	(60)	(5)	(33)	(34)
Reversal of impairment on amounts recovered	(156)	(277)	(148)	(255)
Balance at end of the year	**1,040**	**918**	**818**	**652**

The ageing analysis of impaired trade receivables:

	INA Group		INA, d.d.	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
less than 60 days	52	-	52	-
61-120 days	42	73	41	72
121-180 days	49	79	49	78
181-365 days	157	137	150	136
366+ days	740	629	526	366
	1,040	**918**	**818**	**652**

Trade receivables, net balance of INA Group above also includes related party receivables of HRK 237 million as of 31 December 2015 (2014: HRK 194 million) with related party entities out of INA Group (see note 39).

24. OTHER RECEIVABLES

	INA Group		INA, d.d.	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Tax prepayments	52	22	11	8
Foreign concessions receivables	34	68	34	72
Interest receivables	10	15	10	15
Prepayment receivables	10	56	2	12
Employees receivables	3	4	3	4
Other receivables	27	16	24	11
	136	**181**	**84**	**122**

(all amounts are presented in HRK millions)

25. OTHER CURRENT ASSET

	INA Group		INA, d.d.	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Current portion of long terms loans	279	267	279	857
Short-term loans and deposits	26	38	16	27
Positive fair value of hedge commodity transactions	18	56	18	56
Positive fair value of derivatives	12	23	12	23
Loan impairment	(117)	(103)	(117)	(175)
Other	6	1	-	1
	224	**282**	**208**	**789**

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 2015	31 December 2014	31 December 2015	31 December 2014
Cash in the bank	236	421	170	298
Deposits until three months	11	14	-	-
Cash on hand	3	3	-	-
Other	25	29	25	29
	275	**467**	**195**	**327**

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

	INA Group		INA, d.d.	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Current portion of long-term loans (note 30)	139	199	133	187
Overdrafts and short-term loans	2,768	2,631	2,508	2,391
	2,907	**2,830**	**2,641**	**2,578**

(all amounts are presented in HRK millions)

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

	INA Group		INA, d.d.	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Unsecured bank loans in EUR	1,649	1,631	1,614	1,594
Unsecured bank loans in USD	967	853	892	794
Unsecured bank loans in HRK	147	147	2	-
Unsecured bank loans in HUF	5	-	-	-
	2,768	**2,631**	**2,508**	**2,388**

The most significant short-term loans as at 31 December 2015 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 letters of credits.

Short-term loans are contracted as multicurrency lines with variable interest rates. INA, d.d. loans are unsecured and majority of them do 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 2015	31 December 2014	31 December 2015	31 December 2014
Trade payables	1,400	1,713	967	1,256
Production and sales and other taxes payable	598	978	563	924
Payroll payables	165	200	123	151
Payroll taxes and contributions	67	76	43	46
Mining fee	39	52	39	52
Advance Payments	27	232	23	22
Negative fair value of derivatives	24	20	24	20
Negative fair value of hedge commodity transactions	-	35	-	35
Embedded derivative financial liabilities	-	9	-	9
Other	16	6	7	4
	2,336	**3,321**	**1,789**	**2,519**

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

Trade payables, net balance also includes payables of HRK 53 million as of 31 December 2015 (2014: HRK 70 million) with related party entities out of INA Group (see note 39).

(all amounts are presented in HRK millions)

29. ACCRUALS AND DEFERRED INCOME

	INA Group		INA, d.d.	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Accrued expenses	47	24	-	-
Accrued interest – long-term loans	10	27	10	27
Deferred income from underlifting of gas	-	47	-	47
Other	7	16	7	14
	64	**114**	**17**	**88**

30. LONG-TERM LOANS

Long-term loans are denominated in a different foreign currencies and are subject to different 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 secured by INA, d.d. corporate guarantees.

The outstanding loans of the Group are analysed as follows:

Purpose of the loan	Loan currency	31 December 2015	31 December 2014
Project financing	USD, EUR	533	806
		533	**806**
Due within one year		(133)	(187)
Total long-term loans INA, d.d.		**400**	**619**
Other long term loans INA Group	EUR,USD,HUF,HRK	6	21
		6	**21**
Due within one year		(6)	(12)
Total long-term loans INA Group		**400**	**628**

(all amounts are presented in HRK millions)

30. LONG-TERM LOANS (CONTINUED)

INA Group	Weighted average interest rate 31 December 2015	Weighted average interest rate 31 December 2014	31 December 2015	31 December 2014
	%	%		
Bank loans in USD	2.46	2.30	430	496
Bank loans in EUR	1.99	4.04	109	326
Bank loans in HRK	-	3.80	-	5
Total			**539**	**827**
Payable within one year			(139)	(199)
Total long-term loans			**400**	**628**

INA, d.d.	Weighted average interest rate 31 December 2015	Weighted average interest rate 31 December 2014	31 December 2015	31 December 2014
	%	%		
Bank loans in USD	2.47	2.28	424	480
Bank loans in EUR	1.99	4.04	109	326
Total			**533**	**806**
Payable within one year			(133)	(187)
Total long-term loans			**400**	**619**

The maturity of the loans may be summarised as follows:

	INA Group		**INA, d.d.**	
	31 December 2015	**31 December 2014**	**31 December 2015**	**31 December 2014**
Current portion of long-term debt	139	199	133	187
Payable within one to two years	133	194	133	187
Payable within two to three years	133	187	133	186
Payable within three to four years	134	124	134	123
Payable within four to five years	-	123	-	123
Total	**539**	**827**	**533**	**806**

(all amounts are presented in HRK millions)

30. LONG-TERM LOANS (CONTINUED)

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

	INA Group	INA, d.d.
Balance at 31 December 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
Balance at 1 January 2015	**827**	**806**
New borrowings raised	1,602	1,602
Amounts repaid	(1,931)	(1,913)
Foreign exchange losses	41	38
Balance at 31 December 2015	**539**	**533**
Payable within one year (included within bank loans and overdrafts – note 27)	139	133
Payable after more than one year	400	400

The principal long-term loans outstanding at 31 December 2015 and loans signed during 2015 were as follows:

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.

ING BANK N.V., LONDON BRANCH

In 2015 INA, d.d. signed long-term multi-currency revolving credit facility agreement for general corporate purposes in the amount of USD 300 million. Lenders are banking groups represented by both international and domestic banks. The Agent is ING Bank N.V., London Branch. Maturity of the credit facility is 3 years with an option for 1+1 year extension.

MOL Group

In 2015 INA, d.d. signed amendment to intragroup long-term multi-currency revolving loan agreement for general corporate purposes provided from MOL Group by which intragroup financing has been decreased from USD 300 million to USD 100 million with maturity in 2018.

Compliance with loan agreements

During 2015 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.

(all amounts are presented in HRK millions)

31. OTHER NON-CURRENT LIABILITIES

	INA Group		INA, d.d.	
	31 December 2015	**31 December 2014**	**31 December 2015**	**31 December 2014**
Liabilities to Government for sold apartments	45	51	45	51
Deferred income for sold apartments	6	8	6	7
Liabilities for derivatives financial instruments	-	5	-	5
Other long-term liabilities	15	-	14	-
	66	**64**	**65**	**63**

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

(all amounts are presented in HRK millions)

32. PROVISIONS

INA Group	Environmental provision	Decommissioning charges	Legal claims	Redundancy costs	Unused vacation	Tax obligation claims	Provision for employee benefits	Provision for Angolan tax	Other	Total
Balance at 1 January 2014	**301**	**2,360**	**96**	**42**	**61**	**80**	**45**	**164**	**116**	**3,265**
Charge for the year	19	-	60	126	83	-	89	**-**	265	**642**
Effect of change in estimates	4	(233)	-	-	-	4	-	**-**	-	**(225)**
Interest	8	72	-	-	-	-	-	**-**	-	**80**
Provision utilised during the year	(23)	(1)	(31)	(79)	(60)	(13)	(41)	**-**	(109)	**(357)**
Balance at 31 December 2014	**309**	**2,198**	**125**	**89**	**84**	**71**	**93**	**164**	**272**	**3,405**
Charge for the year	38	-	16	239	61	-	121	140	73	**688**
Effect of change in estimates	18	56	-	-	-	3	-	-	-	**77**
Interest	7	56	-	-	-	-	-	-	5	**68**
Provision utilised during the year	(39)	-	(38)	(89)	(76)	(1)	(92)	(1)	(9)	**(345)**
Balance at 31 December 2015	**333**	**2,310**	**103**	**239**	**69**	**73**	**122**	**303**	**341**	**3,893**

(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 employee benefits	Provision for Angolan tax	Other	Total
Balance at 1 January 2014	**288**	**2,360**	**81**	**31**	**44**	**27**	**164**	**102**	**3,097**
Charge for the year	18	-	54	112	45	**69**	**-**	239	**537**
Effect of change in estimates	4	(178)	-	-	-	**-**	**-**	-	**(174)**
Interest	8	72	-	-	-	**-**	**-**	5	**85**
Provision utilised during the year	(23)	(1)	(22)	(67)	(44)	**(27)**	**-**	(90)	**(274)**
Balance at 31 December 2014	**295**	**2,253**	**113**	**76**	**45**	**69**	**164**	**256**	**3,271**
Charge for the year	40	-	15	236	41	91	140	35	**598**
Effect of change in estimates	18	146	-	-	-	-	**-**	-	**164**
Interest	7	58	-	-	-	-	**-**	5	**70**
Provision utilised during the year	(38)	-	(34)	(76)	(45)	(69)	**(1)**	(3)	**(266)**
Balance at 31 December 2015	**322**	**2,457**	**94**	**236**	**41**	**91**	**303**	**293**	**3,837**

	INA Group		**INA, d.d.**	
	31 December 2015	**31 December 2014**	**31 December 2015**	**31 December 2014**
Analysed as:				
Current liabilities	627	568	463	422
Non-current liabilities	3,266	2,837	3,374	2,849
	3,893	**3,405**	**3,837**	**3,271**

32. PROVISIONS (CONTINUED)

Environmental provision

The environmental provision recorded by INA Group is HRK 333 million on 31 December 2015 (31 December 2014: HRK 309 million). The environmental provision covers treatment of accumulated waste generated by former activity, soil excavation and replacement during the reconstruction of filling stations and comprehensive investigation to determine the extent of the soil and groundwater contaminations.

Emission allowances

Under European Union Emission Trading Scheme, INA' plants 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.

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 2015, the Company recognised a decommissioning provision for 44 oil and gas production fields, 6 non-production fields, 11 positive non-production wells and 359 negative non-production wells. As of 31 December 2014, the Company recognised a decommissioning provision for 45 oil and gas production fields, 5 non-production fields, 10 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 that outflow of resources 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.

32. PROVISIONS (CONTINUED)

Unused holiday

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

Other provision

Other provisions of INA; d.d. in amount of HRK 293 million relate to provision for contractual liability for investments in Iran of HRK 251 million 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 sediment and non –pumpable inventories in amount of HRK 41 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 2015 by independent actuarial expert. In 2015, the Company made a provision of HRK 35 million in respect of jubilee awards and HRK 35 million for regular retirement allowance, whereas in 2014 Company made provision in respect of jubilee awards in amount of HRK 60 million and for regular retirement HRK 76 million.

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

(all amounts are presented in HRK millions)

33. RETIREMENT AND OTHER EMPLOYEE BENEFITS (CONTINUED)

Actuarial estimates were derived based on the following key assumptions:

	Valuation at	
	31 December 2015	**31 December 2014**
Discount rate	3.7%	3.7%
Average longevity at retirement age for current pensioners (years)		
males	14.9	13.5
females	18.3	16.9
Average longevity at retirement age for current employees (future pensioners) (years)		
males	14.9	13.5
females	18.3	16.9
Mortality table	HR 2010-2012 70,00%	HR 2004 70,00%

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

	INA Group		**INA, d.d.**	
	31 December 2015	**31 December 2014**	**31 December 2015**	**31 December 2014**
Service cost:				
Cost of current period	12	14	8	8
Interest	6	9	5	7
Past service cost, including losses/(gains) on curtailments	(17)	23	(17)	16
Components of defined benefit costs recognized in profit and loss:	**1**	**46**	**(4)**	**31**
Remeasurement of the net defined benefit liability:				
Actuarial gains and losses arising from changes in demographic assumptions	(33)	-	(27)	-
Actuarial gains and losses arising from changes in financial assumptions	(4)	13	(4)	11
Actuarial gains and losses arising from experience adjustments	(27)	(10)	(21)	(4)
Components of defined benefit costs recognised in profit and loss account and other comprehensive income:	(64)	3	(52)	7
Total	**(63)**	**49**	**(56)**	**38**

(all amounts are presented in HRK millions)

33. RETIREMENT AND OTHER EMPLOYEE BENEFIT (CONTINUED)

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

	INA Group		INA, d.d.	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Present value of defined benefit obligations	109	184	70	136
Liability recognised in the balance sheet	**109**	**184**	**70**	**136**

	INA Group		INA, d.d.	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
This amount is presented in the balance sheet as follows:				
Current liabilities	8	12	4	8
Non-current liabilities	101	172	66	128
	109	**184**	**70**	**136**

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

	INA Group		INA, d.d.	
	2015	2014	2015	2014
At 1 January	184	146	136	105
Cost of current period	10	14	8	8
Interest	6	9	5	7
Actuarial (gains) or losses				
Actuarial gains and losses arising from changes in demographic assumptions	(33)	-	(27)	-
Actuarial gains and losses arising from changes in financial assumptions	(4)	13	(4)	11
Actuarial gains and losses arising from experience adjustments	(27)	(10)	(21)	(4)
Past service cost, including losses/(gains) on curtailments	(17)	23	(17)	16
Benefit paid	(10)	(11)	(10)	(7)
Closing defined benefit obligation	**109**	**184**	**70**	**136**

(all amounts are presented in HRK millions)

34. SHARE CAPITAL

	INA Group and INA, d.d.	
	31 December 2015	31 December 2014
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 2015	31 December 2014
Balance at beginning of year	121	6
Increase/(decrease) arising on revaluation of available-for-sale securities (Janaf)	119	144
Deferred tax effect	(24)	(29)
Balance at the end of year	**216**	**121**

In 2015 and 2014 there was a significant increase in the value of JANAF on the stock market; therefore an increase on revaluation reserves was recorded.

(all amounts are presented in HRK millions)

36. OTHER RESERVES

On the regular general shareholders' meeting of INA d.d. held on 12 June 2015 approval was given for transfer part of other reserves relating to profit from the 1993 year amounting to HRK 1,448 million and PSP Okoli gas inventory amounting to HRK 192 million, all in total amount HRK 1,640 million to retained earnings. After transfer of other reserves to retained earnings in INA, d.d. in amount of HRK 1,640 million, same was used for coverage of losses from prior periods. Legal reserves are disclosed as the separate reporting item.

The remaining amount of combined 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.

Movements on reserves during the year were as follows:

INA Group	Combined reserves at 31 December 1993	Foreign currency translation reserves	Reserve of defined benefit obligation	Other reserves	Total
Balance at 1 January 2014	**2,132**	**(284)**	**(11)**	**447**	**2,284**
Movements during 2014	**-**	567	-	**-**	567
Balance at 31 December 2014	**2,132**	**283**	**(11)**	**447**	**2,851**
Movements during 2015	(1,640)	358	36	-	(1,246)
Foreign exchange differences transferred of other reserves and other changes	-	36	-	-	36
Balance at 31 December 2015	**492**	**677**	**25**	**447**	**1,641**

INA, d.d.	Combined reserves at 31 December 1993	currency translation reserves	Reserve of defined benefit obligation	Other reserves	Total
Balance at 1 January 2014	**1,667**	**(9)**	**(9)**	**285**	**1,934**
Movements during 2014	-	595		-	595
Balance at 31 December 2014	**1,667**	**586**	**(9)**	**285**	**2,529**
Movements during 2015	(1,640)	355	29	-	(1,256)
Balance at 31 December 2015	**27**	**941**	**20**	**285**	**1,273**

(all amounts are presented in HRK millions)

37. RETAINED EARNINGS

	INA Group	INA, d.d.
	Retained earnings	Retained earnings
Balance at 1 January 2014	**1,256**	**2,060**
(Loss)/profit for the year	(1,897)	631
Loss brought forward from merger of Prirodni plin	-	(3,195)
Balance at 31 December 2014	**(641)**	**(504)**
Transfer other reserves to retained earnings	1,640	1,640
Transfer exchange curreny translation from foreign operation	(33)	-
Loss for the year	(1,418)	(1,202)
Loss brought forward from merger of INA-Osijek Petrol	-	(94)
Dividends paid	(150)	(150)
Balance at 31 December 2015	**(602)**	**(310)**

38. NON-CONTROLLING INTEREST

	INA Group	
	31 December 2015	31 December 2014
Balance at beginnig of year	(1)	(1)
Share of profit for the year	1	-
Balance at end of year	**-**	**(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.

(all amounts are presented in HRK millions)

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	
	2015	**2014**	**2015**	**2014**
Companies available-for-sale				
JANAF d.d. Zagreb	3	3	50	28
Strategic partner				
MOL Nyrt.	563	649	777	756
Companies controlled by strategic partner				
Tifon d.o.o.	523	733	17	28
Energopetrol d.d.	256	341	-	-
MOL Slovenija d.o.o.	95	92	66	81
Kalegran Ltd.	53	135	2	3
MOL Petrochemicals Co Ltd	27	10	4	-
Slovnaft, a.s.	22	26	412	123
MOL Serbia d.o.o.	16	-	-	-
Mol Germany GMBH	4	-	-	-
MOL Commodity Trading Kft.	-	-	37	5
Rossi Biofuel ZRT	-	-	7	-
IES-Italiana Energia e Servizi s.p.a.	-	-	5	3
Slovnaft Vurup, a.s.	-	-	1	-

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 2015	**31 December 2014**	**31 December 2015**	**31 December 2014**
Companies available-for-sale				
JANAF d.d. Zagreb	1	1	2	-
Strategic partner				
MOL Nyrt.	35	77	36	56
Companies controlled by strategic partner				
Kalegran Ltd.	101	22	-	-
Energopetrol d.d.	51	41	-	-
Tifon d.o.o.	45	51	1	1
MOL Slovenija d.o.o.	3	3	5	7
Slovnaft, a.s.	1	-	4	6
ROSSI BIOFUEL ZRT.	-	-	7	-
IES -Italiana Energia e Servizi s.p.a	-	-	1	-

(all amounts are presented in HRK millions)

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 2015	31 December 2014	31 December 2015	31 December 2014
Companies controlled by strategic partner				
Energopetrol d.d.	286	271	-	-

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	
	2015	2014	2015	2014
Related companies				
Holdina Sarajevo	1,867	2,426	1	-
INA Crna Gora d.o.o Podgorica	97	88	-	-
Osijek Petrol d.d.	46	92	-	-
STSI d.o.o. Zagreb	27	25	662	617
Crosco d.o.o.	20	21	313	353
INA Maziva d.o.o.	10	4	54	56
Interina d.o.o. Ljubljana	8	13	-	-
TOP Računovodstvo Servisi d.o.o.	7	7	49	48
Hostin	1	1	-	-
Adrigas Milano	1	-	-	-
Rotary Drilling Co Ltd Hungary	1	1	-	-
Prirodni plin d.o.o. Zagreb (until November 2014)	-	3,523	-	568
ITR d.o.o. Zagreb	-	1	-	5
Plavi Tim d.o.o.	-	-	5	-
INA d.o.o.Banja Luka	-	-	1	1
Companies available-for-sale				
JANAF d.d. Zagreb	3	3	50	28
Strategic partner				
MOL Nyrt.	336	464	619	539
Companies controlled by strategic partner				
Tifon d.o.o.	522	731	17	28
MOL Slovenija d.o.o.	92	89	-	-
MOL Petrochemicals Co Ltd	27	10	-	-
Energopetrol d.d.	25	22	-	-
Slovnaft, a.s.	22	26	412	123
MOL Serbia d.o.o.	16	-	-	-
Mol Germany GMBH	4	-	-	-
Kalegran Ltd	2	-	-	-
MOL Commodity Trading Kft.	-	-	37	5
Rossi Biofuel ZRT	-	-	7	-
IES-Italiana Energia e Servizi s.p.a.	-	-	5	3
Slovnaft Vurup, a.s.	-	-	1	-

(all amounts are presented in HRK millions)

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 2015	31 December 2014	31 December 2015	31 December 2014
Subsidiaries				
Holdina Sarajevo	117	128	5	34
Crosco d.o.o.	69	5	70	88
STSI d.o.o. Zagreb	10	8	184	233
INA Maziva d.o.o.	5	1	6	6
Interina d.o.o. Ljubljana	1	1	-	-
TOP Računovodstvo Servisi d.o.o.	1	1	5	3
Osijek Petrol d.d.	-	14	-	1
INA Beograd d.o.o Beograd	-	8	-	-
Plavi Tim d.o.o.	-	-	6	-
Companies available-for-sale				
JANAF d.d. Zagreb	1	1	2	-
Strategic partner				
MOL Nyrt.	9	43	26	47
Companies controlled by strategic partner				
Tifon d.o.o.	45	51	1	1
MOL Slovenija d.o.o.	3	3	-	-
Energopetrol d.d.	1	1	-	-
Slovnaft, a.s.	1	-	4	6
Rossi Biofuel Zrt.	-	-	7	-
IES -Italiana Energia e Servizi s.p.a	-	-	1	-

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

In 2015 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 43 million.

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.

(all amounts are presented in HRK millions)

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 2015	**31 December 2014**	**31 December 2015**	**31 December 2014**
Related companies				
Crosco d.o.o.	642	461	-	-
INA BH d.d. Sarajevo	36	33	-	-
INA Crna Gora d.o.o Podgorica	20	22	-	-
Interina d.o.o. Ljubljana	17	16	-	-
Osijek Petrol d.d.	-	90	-	-
STSI d.o.o. Zagreb	-	-	119	-
INA Maziva d.o.o.	-	-	60	61
Hostin d.o.o.	-	-	14	7
Adrigas Milano	-	-	12	8
TOP Računovodstvo Servisi d.o.o.	-	-	7	-
Polybit	-	-	-	2
Companies controlled by strategic partner				
Energopetrol d.d.	286	271	-	-

Hedge transactions with related parties:

INA Group and INA, d.d.	**Income from hedge transactions - net effect**	**Expense from hedge transactions -net effect**
	2015	**2014**
Companies controlled by strategic partner		
MOL Commodity Trading KFt	42	24

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

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

(all amounts are presented in HRK millions)

39. RELATED PARTY TRANSACTIONS (CONTINUED)

Compensation of key management personnel

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

	INA, d.d.	
	31 December 2015	31 December 2014
Short-term employee benefits	41.1	42.1
Termination bonuses	0.2	1.0
Total	**41.3**	**43.1**

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

During 2015, Rotary Drilling Co Ltd Hungary incurred revenue in respect of termination of contract with Kalegram Ltd. based on rights for an early termination fee and demobilization fees revenue in amount of 13.5 million USD. Termination of contract occurred due to change of working plan of Kalegran Ltd. in Kurdistan.

In 2015 INA, d.d. sold four petrol stations to company Holdina Sarajevo. Net book value of the petrol stations is HRK 4.7 million while INA, d.d. sold petrol stations under market price of HRK 16.9 million.

The Company remains the customer of company JANAF d.d., in which it has a holding of 11.795% (Note 21). During 2015, approximately HRK 50 million of JANAF's sales revenue in the amount of HRK 683 million account for sales revenue in respect of INA, d.d. as user of the pipeline system of JANAF d.d. (2014: HRK 29 million out of HRK 446 million sales 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 a joint operating company ED-INA with shareholding: 50% : 50%.

North Adriatic Area (3 development concession) comprises of 18 production platforms and 1 compressor platform, 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.

On 31 December 2015 INAgip had in both contract areas 137 active contracts amounting in total to HRK 381.52 million. The remaining commitments under these contracts on 31 December 2015 amounted to HRK 206.7 million.

Until 31 December 2015, total INA d.d. capital investments on the Izabela contract area amounted to HRK 352,792 million, which have been invested for construction of production-gathering-transportation system of Izabela gas field. Gas production from Izabela field during 2015 was stable and in line with production plan (+5%). Total INA share of gas, delivered from Izabela field to Ivana K platform, from production startup is about 45% (173,8 million Sm^3).

For the development of the Izabela gas field from 1 January 2008 until 31 December 2014, ED-INA has concluded 93 contracts amounting in total to EUR 141 million. Due to the fact that from 2015 on Izabela contract area there is no more development activities, all above mentioned contracts, from capital investments point of view, can be considered realized. At this moment 34 of 93 mentioned contracts are still active, but used only for Operative activities and presenting OPEX only.

Gas Transportation Contract

The future gas transportation contracted commitments with Gas Connect Austria until 31 December 2017 amount to approximately HRK 98 million in total.

(all amounts are presented in HRK millions)

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 2015	31 December 2014	31 December 2015	31 December 2014
within 1 year	45	55	40	44
between 2 - 5 years	51	78	41	59
beyond 5 years	-	-	-	-
	96	**133**	**81**	**103**

Out of the outstanding operating lease liabilities as of 31 December 2015 HRK 81 million were contracted by INA, d.d. and HRK 13 million were contracted by Rotary Zrt., while for 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, as a fee established under appropriate financial instruments or as an obligation prescribed by regulation.

41. CONTINGENT LIABILITIES (CONTINUED)

Environmental matters (continued)

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

Directive 2010/75/EU on industrial emissions 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 (control prevention of emissions to air, water and soil, in waste management, in energy efficiency and accident prevention). 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 order to align the existing technology with the best available techniques, during 2015 projects are ongoing 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.

At the end of 2014, a new Commission Implementing Decision established the best available techniques (BAT) conclusions for the refining of mineral oil and gas (2014/738/EU) that are references for determining the conditions of the environmental permit. During 2015, an analysis of deviations from the requirements documents are made and the intention is to start with the environmental licenses analysis, considering that the new requirements should be harmonized until October of 2018. In conclusion, "bubble concept" is recognized as one of the best available techniques for integrated emission management of SOx and / or NOx. 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.

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

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

From 1 January 2013 Rijeka Refinery, Sisak Refinery, Fractionation Facilities Ivanić Grad and Gas Processing Facilities Molve are a part of the ETS. 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 2015, verifier then confirmed verified emissions entered into the Registry and emission allowances have been surrendered in amount equal to verified emissions until 30 April 2015.

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, is the entire INA's retail network as well as tank truck loading station in Sisak Refinery is compliant. In the next three years it is planned investment of 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 2015, INA, d.d. made environmental provisions in the amount of HRK 322 million, whereas the provisions at the Group level amounted to HRK 333 million, while 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 637 million and HRK 427 million, respectively. The estimates were not recognised because the timing of the event is uncertain and there is no evidence of pollution.

41. CONTINGENT LIABILITIES (CONTINUED)

Litigation

The Group is exposed to various legal claims. The following claims are considered as contingencies and no provision is recognised in the financial statements in their respect.

GWDF Partnership München and GWDF Limited Cyprus

In the dispute initiated by GWDF Partnership Gesellschaft Bürgerlicher Rechts and GWDF Limited, Cyprus against INA-INDUSTRIJA NAFTE d.d. and INA-NAFTAPLIN International Exploration, Channel Islands, in front Commercial Court in Zagreb, the plaintiffs claim compensation for damage in the amount of app EUR 8 million incurred due to ungrounded termination of negotiations. This resulted in refrain from signing the contract on the transfer of shares between GWDF Ltd Cyprus and INA - Naftaplin International Exploration. INA, d.d. filed a counterclaim in September 2007, disputing both the grounds and the amount of the claim, claiming that the claimants abandoned the negotiations because of a business decision and they were the ones negotiating in conflict with the principles of conscientiousness and fairness.

Furthermore, INA, d.d. filed the objection to the lack of litigation capacity as regards GWDF Partnership, the objection to the misdirected passive personality in relation to INA, d.d., stating also that the court is not competent in relation to GWDF Limited Cyprus.

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

After more than three years, a hearing was held on 11 September 2014 with a new judge, but still no decision was made on the relevant law. The plaintiffs were invited to respond on the legal merits of the claim and to deliver the regulations of the German Republic regulating the relationships of damages, liability and rules of conduct in civil obligations and the provisions especially concerning pre-contractual liability.

The next hearing has been scheduled for 5 February 2015 but was postponed due to illness of the judge, and a new one has not been scheduled yet.

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.

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.

The Commercial Court rendered the Decision of 24 November 2008 whereby it dismissed the lawsuit. The plaintiff lodged an appeal against the afore-stated decision, which was adopted by the High Commercial Court and returned to the court of first instance for a retrial. During the retrial, the plaintiff by its application of 3 May 2010, along with the above-stated objections, also filed a claim preclusion (res iudicata) objection with reference to the above-stated procedure finalized by a legally effective decision

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, therefore no provision has been recognized.

Management believes, based on legal advice, that no losses will be incurred, so no provision has been recognized as of 31 December 2014 as well as 31 December 2015.

The Supreme Court has not decided on review to this date, so no legal actions were taken in 2015.

SALBATRING ENERGIJA, Međunarodna trgovina, d.o.o.

SALBATRING ENERGIJA, Međunarodna trgovina, d.o.o. ("SALBATRING") initiated the arbitration procedure in front of London Court of International Arbitration by delivering the Request for arbitration on 17 June 2014.

INA received Salbatring's full Statement of Claim on 20 June 2015 by which Salbatring is claiming the amount of USD 28 million plus the interest and costs as it is indicated below:

(i) Claims regarding the Coke Contract and the Settlement Agreement

Salbatring is claiming that INA failed to sell coke to Salbatring in the quantities that have been agreed by the Coke Contract and the Settlement Agreement and therefore INA breached the Contract as well as the Settlement Agreement. As a consequence of the breach (non-delivery of the contracted quantities), Salbatring is claiming lost profit in the amount of USD 14 million from the Coke Contract and USD 11 million from the Settlement Agreement.

41. CONTINGENT LIABILITIES (CONTINUED)

Litigation (continued)

SALBATRING ENERGIJA, Međunarodna trgovina, d.o.o. (continued)

(ii) Compensation for damage reputation

Since, allegedly, INA's failure to supply the contracted quantities of coke has had a serious adverse impact on Salbatring's business and its reputation towards their buyers, they are also claiming damage to reputation in the amount of USD 2 million.

As a legal ground from their claim, inter alia, they are challenging certain provisions of the Contract, interpreting it differently than INA and claiming that INA has not had an unfettered right to choose to produce and to supply little or no coke at all.

INA submitted its Statement of Defence in November 2015 and the arbitration procedure is currently in phase of documentation preparation.

EKOMEDIA d.o.o.

In September 2012 INA, d.d. entered into an agreement with company Ekomedia d.o.o. ("Ekomedia"), pursuant to which Ekomedia was granted the right to place exterior advertising boards on INA's gas stations and replacement of them for advertising purposes to third parties for which fee to INA is paid. The agreement was concluded for a 10-year period, with financial terms being agreed each year and if they are not agreed on, this would represent a reason to terminate the agreement.

Ekomedia failed to regularly comply with its obligations, did not pay the fee and, when the agreement was terminated, it still owed INA several hundred thousand Croatian kunas.

Consequently, INA, d.d. terminated the agreement with Ekomedia at the beginning of 2014.

In response, in May 2014 Ekomedia filed a motion for interim measure to the court to prevent taking down of advertising boards from INA's gas stations. In November 2015 The High Commercial court has reached a final decision and rejected such Ekomedia request.

On 19 December 2014 Ekomedia filed lawsuit against INA, seeking performance of agreement by INA, and secondly, if it is not successful with this claim, damages for lost profit of cca EUR 12.3 million. In February 2015 INA filed its official replay to such Ekomedia's lawsuit and proposed to court rejection of it. Till now, Commercial court has not reached any decision in this case.

R.I.G.-TEHNIČKI SERVISI GRUPA d.o.o. c/a CROSCO

This is a civil procedure which is conducted before the Commercial Court in Zagreb, the plaintiff being R.I.G.-TEHNIČKI SERVISI GRUPA d.o.o. and the defendant CROSCO, naftni servisi d.o.o., dispute value equalling HRK 81.7 million with the interest running from March 2010, for damages caused by non-payment of extra and unforeseen works and, to a minor extent, for damages due to loss of computer equipment (cca HRK 520,400.00/EUR 67,000 with the default interest).

By the Decision of the Commercial Court in Zagreb dated on May 2011, the concerned procedure was suspended since a bankruptcy proceeding was initiated against the plaintiff. The procedure was resumed because the bankruptcy trustee took over the dispute.

(all amounts are presented in HRK millions)

41. CONTINGENT LIABILITIES (CONTINUED)

Litigation (continued)

R.I.G.-TEHNIČKI SERVISI GRUPA d.o.o. c/a CROSCO (continued)

The last hearing was held on March 2015, in the presence of intervenient as well. Hearing was postponed, due to the fact that Assembly of creditors (RIG bankruptcy procedure) was scheduled for April 2015.

Management believes, based on legal advice, that no losses will be incurred, so no provision has been recognized as of 31 December 2014 as well as 31 December 2015.

42. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Gearing ratio

The primary objective of INA Group in managing its capital is 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 INA 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 are associated with each class of capital. Internally, maximum gearing ratio of INA Group is determined.

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

	INA Group		INA, d.d.	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Debt:	**3,307**	**3,458**	**3,041**	**3,197**
Long term loans	400	628	400	619
Short term loans	2,768	2,631	2,508	2,391
Current portion of long-term borrowings	139	199	133	187
Cash and cash equivalents	(275)	(467)	(195)	(327)
Net debt	**3,032**	**2,991**	**2,846**	**2,870**
Equity	10,585	11,660	10,509	11,476
Equity and net debt	13,617	14,651	13,355	14,346
Gearing ratio	**22%**	**20%**	**21%**	**20%**

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.

(all amounts are presented in HRK millions)

42. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Categories of financial instruments

	INA Group		INA, d.d.	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Financial assets				
Cash and cash equivalents	275	467	195	327
Loans and receivables	2,214	2,549	3,276	3,564
Available-for-sale financial assets	581	462	581	462
Positive fair value of hedge commodity transactions	18	56	18	56
Positive fair value of derivatives	12	23	12	23
Financial assets designated as at fair value through profit and loss	7	6	7	6
Financial liabilities				
Loans and borrowings	3,307	3,458	3,529	3,640
Trade payables	1,400	1,713	967	1,256
Negative fair value of hedge commodity transactions	-	35	-	35
Negative fair value of derivatives	24	20	24	20
Embedded derivative financial instruments	-	14	-	14

Financial risk management objectives

INA Group in course of business continuously monitors and manages financial risks. Risk Management and Hedging Policy for INA Group provides 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., coordinates 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 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. Necessary natural gas quantities in 2015 INA Group imported in EUR based on spot price.

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 weekly based on market principles, which enables quicker responses to market prices fluctuations.

In accordance with 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 2015 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 2015 fair value of hedged items under commodity derivative transaction designated as fair value hedge was a net receivable of HRK 18 million and no net payable. The corresponding figures at 31 December 2014 were HRK 56 million receivable and HRK 35 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, INA 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 INA 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 2015 there were no outstanding cross-currency transactions.

(all amounts are presented in HRK millions)

42. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

The carrying amounts of INA Group and INA, d.d. foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

INA Group

	Liabilities		Assets	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Currency EUR	1,951	2,247	489	271
Currency USD	1,789	2,204	1,149	1,169
	3,740	**4,451**	**1,638**	**1,440**

INA, d.d.

	Liabilities		Assets	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Currency EUR	1,855	2,065	564	546
Currency USD	1,657	1,974	1,520	1,339
	3,512	**4,039**	**2,084**	**1,885**

Foreign currency sensitivity analysis

INA Group is mainly exposed to currency risk related to change of HRK exchange rate against USD and EUR, due to the fact that crude oil and natural gas trading on international markets and INA Group's debt portfolio are denominated in the mentioned currencies.

The following table details INA Group's and INA, d.d.'s sensitivity to a 10% weakening in HRK at 31 December 2015 (in 2014: 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 2015	31 December 2014	31 December 2015	31 December 2014
Loss	(64)	(102)	(146)	(198)
	(64)	(102)	(146)	(198)

INA, d.d.

	Currency USD Impact		Currency EUR Impact	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Loss	(14)	(63)	(129)	(152)
	(14)	(63)	(129)	(152)

(all amounts are presented in HRK millions)

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

INA Group is exposed to interest rate risk, since entities in INA Group generally borrows funds at floating interest rates.

INA 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 could be more favourable.

INA, d.d. in accordance with 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 2015 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 2015	31 December 2014	31 December 2015	31 December 2014
Short-term interest expense change	55	54	50	49
Long-term interest expense change	11	13	11	12
Total change:	**66**	**67**	**61**	**61**

If interest rates would be 200 basis points higher, the profit of the INA Group as of 31 December 2015 would be decreased by HRK 66 million, while with a change of 50 basis points the decrease would amount to HRK 17 million, (2014: decrease by HRK 67 million had the interest rates been 200 basis points higher, and by HRK 17 million had the interest rates been 50 basis points higher).

At the same time profit of INA, d.d. as of 31 December 2015 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 (2014: decrease by HRK 61 million had the interest rates been 200 basis points higher, and by HRK 15 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 2015 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 53.4 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 INA Group customers. Overdue receivables have an adverse effect on the liquidity of INA Group, whereas impaired overdue receivables have a negative impact on the financial results of INA Group as well. Under currently valid Customer *Credit Management Procedure*, 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, INA 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 INA 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 bank and corporate guarantees and exceptionally bills of exchange.

There is no significant credit risk exposure of INA 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 INA Group's short, medium and long-term funding and liquidity management requirements. INA 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 2015, INA Group had contracted short term bank credit lines amounting to HRK 1.69 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 3.34 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 2015 INA Group had contracted short term credit facilities for financing crude oil and oil products purchase amounting to USD 1.18 billion (2014: USD 1.26 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.

(all amounts are presented in HRK millions)

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 2015					
Non-interest bearing	1,268	471	47	14	1,800
Interest bearing	2,514	405	419	-	3,338
	3,782	**876**	**466**	**14**	**5,138**
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**

INA, d.d.

	Less than 1 month	1 - 12 months	1 - 5 years	5+ years	Total
31 December 2015					
Non-interest bearing	1,141	344	44	14	1,543
Interest bearing	2,507	358	418	-	3,283
	3,648	**702**	**462**	**14**	**4,826**
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**

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 993 million in 2015 (2014: HRK 1,355 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).

(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 GROUP

				31 December 2015
	Level 1	Level 2	Level 3	Total
Financial assets at fair value				
Financial assets available-for-sale*	535	-	-	535
Positive fair value of hedge commodity transactions	-	18	-	18
Positive fair value of derivatives	-	12	-	12
Financial liabilities at fair value				
Negative fair value of derivatives	-	24	-	24

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

(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 2015
	Level 1	Level 2	Level 3	Total
Financial assets at fair value				
Financial assets available-for-sale*	535	-	-	535
Positive fair value of hedge commodity transactions	-	18	-	18
Positive fair value of derivatives	-	12	-	12
Financial liabilities at fair value				
Negative fair value of derivatives	-	24	-	24

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

* 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 (2014: HRK 46 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.

(all amounts are presented in HRK millions)

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.

At 31 December 2015 the long-term contract with Geoplin doo Ljubljana which included embedded derivatives expired. The cumulative effect of the contract that was recognized as a short-term liabilities in the amount of HRK 6.5 million has been released and income from embedded derivatives instruments has been recognised.

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 2015	31 December 2014	31 December 2015	31 December 2014
Fair value at 1 January	(14)	(13)	(14)	-
Financial loss relating to the net change in fair value in the year	14	(1)	14	(14)
Fair value at 31 December	**-**	**(14)**	**-**	**(14)**

	INA Group		INA, d.d.	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Analysed as:				
Current portion	-	(9)	-	(9)
Non-current portion	-	(5)	-	(5)
	-	**(14)**	**-**	**(14)**

43. SUBSEQUENT EVENTS

No events or transactions have occurred since 31 December 2015 or are pending that would have a material effect on the financial statements at that date or for the period then ended, or that are of such significance in relation to the Company's affairs to require mention in a note to the financial statements in order to make them not misleading regarding the financial position and results of operations of the Company.

44. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Management Board and authorised for issue on 9 March 2016.

Signed on behalf of the Company on 9 March 2016 by:

Dr. Ákos Székely	Zoltán Sándor Áldott
Executive Director for Finance	President of the Management Board

INDUSTRIJA NAFTE, d.d.
FINANCE FUNCTION

REPORT
ON COMPANY AND INA GROUP STATUS
FOR JANUARY-DECEMBER 2015

Zagreb, 2016

CONTENTS

INDUSTRIJA NAFTE, d.d.

INA Group and INA d.d. financial results (IFRS) 2015

This report contains parts of audited financial statements and is based on audited numbers for the period ending 31 December 2015 as prepared by the management in accordance with the International Financial Reporting Standards.

INA Group financial results (IFRS)	INA, d.d. 2014		INA, d.d. 2015		INA, d.d. Change %		INA GROUP 2014		INA GROUP 2015		INA GROUP Change %	
	HRK mn	USD mn	HRK mn	USD mn	HRK	USD	HRK mn	USD mn	HRK mn	USD mn	HRK	USD
Net sales revenues	21,079	3,666	17,161	2,501	(18.6)	(31.8)	23,759	4,133	18,861	2,748	(20.6)	(33.5)
EBITDA reported [(1)]	2,150	374	2,373	346	10.4	(7.5)	2,570	447	2,664	388	3.7	(13.2)
EBITDA excl. special items [(2)]	**2,269**	**395**	**2,631**	**383**	**16.0**	**(2.9)**	**2,689**	**468**	**2,952**	**430**	**9.8**	**(8.0)**
CCS EBITDA							**3,378**	**588**	**3,669**	**535**	**8.6**	**(9.0)**
Operating profit/(loss)	98	17	(1,166)	(170)	n.a.	n.a.	(1,722)	(300)	(1,338)	(195)	(22.3)	(34.9)
Operating profit excl. special items [(2)]	**2,286**	**398**	**74**	**11**	**(96.8)**	**(97.3)**	**513**	**89**	**138**	**20**	**(73.1)**	**(77.5)**
CCS Operating profit							**1,206**	**210**	**843**	**123**	**(30.1)**	**(41.4)**
Net financial expenses	52	9	(332)	(48)	n.a.	n.a.	(612)	(106)	(411)	(60)	(32.8)	(43.7)
Net profit/loss for the period	631	110	(1,202)	(175)	n.a.	n.a.	(1,897)	(330)	(1,418)	(207)	(25.3)	(37.4)
Net profit for the period excl. special items [(2)]	**2,825**	**491**	**171**	**25**	**(93.9)**	**(94.9)**	**344**	**60**	**58**	**8**	**(83.1)**	**(85.9)**
Operating cash flow	3,624	630	1,682	245	(53.6)	(61.1)	3,849	669	1,979	288	(48.6)	(56.9)
Earnings per share												
Basic and diluted earnings per share (kunas per share)	63.1	11.0	(120.2)	(17.5)	n.a.	n.a.	(189.7)	(33.0)	(141.8)	(20.7)	(25.3)	(37.4)
Net debt	2,870	455	2,846	407	(0.8)	(10.6)	2,991	475	3,032	434	1	(9)
Net gearing	20.01		21.31				20.41		22.27			
CAPEX total	1,619	282	1,458	212	(9.9)	(24.5)	1,691	294	1,650	240	(2.4)	(18.2)

[(1)] EBITDA = EBIT + Depreciation + Impairment + Provisions
[(2)] The 2015 EBIT was negatively influenced by HRK 1,476 million special items
[(3)] In converting HRK figures into US Dollars, the following average CNB (HNB) rates were used: for Q3 2015 – 6.8049 HRK/USD; Q4 2014 – 6.1287 HRK/USD; Q4 2015 – 6.9608 HRK/USD; Q1-Q4 2014 – 5.7493 HRK/USD; Q1-Q4 2015 – 6.8623 HRK/USD; as at Sept 30, 2015 – 6.7931 HRK/USD; as at Dec 31, 2015 – 6.9918 HRK/USD
** Restatement of comparable previous periods was made – see on page 10*

INA result in 2015 stayed stable compared to previous year, which is positive achievement for an Upstream oriented company in a year like 2015. Halving Brent prices weighted on the result, but this was offset by weakening of HRK against the USD, a more supportive Downstream environment and increasing hydrocarbon production. CCS EBITDA excl. special items in 2015 even increased slightly and amounted to HRK 3,669 million, while CCS operating profit excl. special items decreased to the level of HRK 843 million. The CCS EBITDA excl. special items in USD terms decreased by 9% to USD 535 million.

Net loss of the Group, although lower than in 2014 amounted to HRK (1,418) million, impacted by the special items in the total amount of HRK 1,476 million. The major part of these one offs relates to the asset impairments in the Upstream segment, driven by the deteriorated oil price and ongoing Syrian crisis. Nevertheless, excluding effect of the special items the result would turn positive, HRK 58 million.

The Exploration & Production segment constant efforts in well workovers and production optimization, as well as new fields going into production, resulted in reversing the natural decline trend from previous years. It needs to be stressed that this is achieved regardless of the fact INA d.d.currently has no exploration licenses. The increase is especially visible in the domestic oil segment, with a 20% increase.

Downstream CCS EBITDA excl. special items turned positive for the first time in more than five years and amounted to HRK 307 million, driven mainly by the uplift of refining margins primarily on the back of lower cost of own consumption and losses, as well as constant optimization measures. Among other measures, change in INA's Retail operating model is definitively a strong move forward with the aim of ensuring INA more competitive position.

Net debt remained stable at HRK 3,032 million and gearing amounted to slightly higher but nevertheless very safe 22.3%. CAPEX level of HRK 1,650 million was only 2% lower than in 2014, which is a stable result having in mind the overall deteriorated environment.

- **Exploration and Production**: In 2015, EBITDA excl. special items reached HRK 3,212 million, representing a decrease of HRK 527 million compared to the previous year. Significant negative impact derived primarly from Brent price drop and lower natural gas prices as a consequence of reduced households gas price and general intensification of the competition that pushed the prices down. Additionally, doubled royalty due to regulatory decisions from 2014 continued to burden INA operations during 2015. However, increased domestic and international crude oil production together with higher offshore natural gas production partly mitigated these negative factors.

- **Refining and Marketing (including Retail)**: In 2015 CCS EBITDA excl. special items amounted to HRK 307 million while reported EBITDA amounted to HRK (575) million, both considerably improved compared to the previous year. The result was driven by the more favourable refining margin environment captured by higher processing levels, higher sales volumes on captive market and extention on other export markets together with a stable retail performance, further supported by the continued implementation of the improved retail operating model.

- **Corporate and Other[1]: EBITDA** excl. special items of the segment amounted to HRK 8 million, a decrease compared to 2014 level by HRK 157 million. EBITDA was lower mainly due to decreased contribution of Crosco, driven by lower engagement of drilling platforms due to unfavorable external environment.

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

Management discussion

Exploration and Production*

Segment (in millions)	INA, d.d. 2014 HRK mn	2014 USD mn	2015 HRK mn	2015 USD mn	Change % HRK	Change % USD
Net sales revenues	5,655	984	4,967	724	(12.2)	(26.4)
EBITDA reported	3,756	653	3,109	453	(17.2)	(30.7)
EBITDA excl. special items**	3,756	653	3,171	462	(15.6)	(29.3)
Operating profit reported	2,977	518	312	45	(89.5)	(91.2)
Operating profit excl. special items**	4,581	797	1,316	192	(71.3)	(75.9)
CAPEX including one-off exploration Opex	1,102	192	840	122	(23.7)	(36.1)

Segment (in millions)	INA GROUP 2014 HRK mn	2014 USD mn	2015 HRK mn	2015 USD mn	Change % HRK	Change % USD
Net sales revenues	6,732	1,171	4,970	724	(26.2)	(38.1)
EBITDA reported	3,739	650	3,150	459	(15.8)	(29.4)
EBITDA excl. special items**	3,739	650	3,212	468	(14.1)	(28.0)
Operating profit reported	961	167	372	54	(61.3)	(67.6)
Operating profit excl. special items**	2,565	446	1,376	201	(46.4)	(55.1)
CAPEX including one-off exploration Opex	1,102	192	840	122	(23.7)	(36.1)

* Exploration and Production refers to the Upstream of INA, d.d. and following subsidiaries: Adriagas S.r.l. Milano, Prirodni plin d.o.o. (merged into INA, d.d. in Q4 2014)
*** Restatement of comparable previous periods was made – see on page 10*

Hydrocarbon production	2014	2015	Ch. %
Crude oil production (boe/d)*	**12,142**	**13,974**	**15.1**
Croatia	8,931	10,674	19.5
Egypt	2,034	2,093	2.9
Angola	1,177	1,207	2.6
Natural gas production (boe/d)	**24,166**	**24,967**	**3.3**
Croatia - offshore	11,136	12,202	9.6
Croatia - onshore	13,030	12,765	(2.0)
Condensate (boe/d)	**2,097**	**1,916**	**(8.7)**
Total hydrocarbon production (boe/d)	**38,405**	**40,857**	**6.4**

Average realised hydrocarbon price*	2014	2015	Ch. %
Total hydrocarbon price (USD/boe)*	72	48	(32.9)
Natural gas trading - mln cm	**2014**	**2015**	**Ch. %**
Total natural gas sales - domestic market	1,542	1,142	(25.9)

* Calculated based on total external sales revenue including natural gas selling price as well.
** Not including forced natural gas sales from Okoli in 2014

In 2015, Exploration and Production segment's EBITDA excl. special items reached HRK 3,212 million, representing a decrease of 14% compared to 2014. Operating profit of the segment stayed positive and amounted to HRK 372 million, in spite of the HRK 1,004 million effect of the special items, most significant being the impairments of the assets. Total hydrocarbon production reached 40.9 mboe per day, up by 2.5 mboe per day compared to the previous year, driven by higher domestic and international crude oil as well as increased offshore natural gas production.

Continuous declining trend in Brent price throughout the whole year (47% decrease compared to 2014), had a negative impact on crude oil sales in the amount of HRK (1,622) million. Lower realized natural gas prices caused by reduction in the regulated gas price and adverse market environment (new contracts from Q4 2015) caused additional HRK (528) million negative effect compared to the base year (o/w HRK (112) million related to reduction in the regulated gas price). The lower realized prices were partially mitigated with 19% HRK weakening to USD, leading to HRK 877 million positive FX change effect.

Crude oil production in 2015 increased by 15% compared to last year as a result of:

- Domestic crude oil production increased by 20% as a result of continued well workovers, well optimisations and additional production from Hrastilnica
- International oil production higher by 3% in Egypt due to additional production from new development wells and performed workovers on North Bahariya as well as better well performance on Ras Qattara and East Yidma Concessions and 3% rise in Angola as a result of start up of new Block 3/05A in February 2015

Total **natural gas** production in 2015 was 3% higher than in 2014 manly resulting from:

- Offshore natural gas production increased mostly as a result of a full year production of Izabela and Ika SW in 2015 (Izabela started in July 2014 and Ika SW in November 2014) that mitigated natural decline of other offshore fields.
- Onshore natural gas production was negatively impacted by natural decline and water cuts on mature gas fields.

Lower domestic **condensate** production by 9% as a consequence of natural decline on main gas condensate fields.

Exploration and Production capital expenditures

Exploration and Production segment's CAPEX in 2015 amounted to HRK 840 million. Capital investments in Croatia amounted HRK 678 million and capital investments abroad HRK 162 million. In comparison with 2014, capital investments were lower in total by HRK 261 million or 24%. Decreased investments level was mainly a result of lower offshore development, onshore exploration and sustain type projects in Croatia.

INDUSTRIJA NAFTE, d.d.

*Refining and Marketing, including Retail**

Segment (in millions)	INA, d.d. 2014 HRK mn	2014 USD mn	2015 HRK mn	2015 USD mn	Change % HRK	Change % USD
Revenues	17,600	3,061	14,299	2,084	(18.8)	(31.9)
EBITDA reported	(1,367)	(238)	(591)	(86)	(56.8)	(63.8)
EBITDA excl. special items**	(1,248)	(217)	(427)	(62)	(65.8)	(71.3)
Operating profit/(loss) reported	(2,522)	(439)	(1,298)	(189)	(48.5)	(56.9)
Operating profit/(loss) excl. special items**	(1,958)	(341)	(1,074)	(157)	(45.1)	(54.0)
CAPEX and investments (w/o acquisition)	473	82	578	84	22.2	2.4

Segment (in millions)	INA GROUP 2014 HRK mn	2014 USD mn	2015 HRK mn	2015 USD mn	Change % HRK	Change % USD
Revenues	18,222	3,169	14,831	2,161	(18.6)	(31.8)
EBITDA reported	(1,313)	(228)	(575)	(84)	(56.2)	(63.3)
EBITDA excl. special items**	(1,194)	(208)	(410)	(60)	(65.7)	(71.2)
CCS-based DS EBITDA**	(505)	(88)	307	45	n.a.	n.a.
Operating profit/(loss) reported	(2,499)	(435)	(1,325)	(193)	(47.0)	(55.6)
Operating profit/(loss) excl. special items**	(1,935)	(337)	(1,101)	(160)	(43.1)	(52.3)
CCS-based DS operating loss	(1,242)	(216)	(396)	(58)	(68.1)	(73.3)
CAPEX and investments (w/o acquisition)	474	82	613	89	29.5	8.5

*Refers to Refining & Marketing including Retail INA. d.d. and following subsidiaries: INA-Maziva, Polybit Rijeka, InterINA Ljubljana, INA BH Sarajevo, HoldINA Sarajevo, INA Crna Gora, INA Beograd, INA Kosovo, Osijek Petrol (merged into INA, d.d. in Q4 2015), Petrol Rijeka
*** Restatement of comparable previous periods was made – see on page 10*

Refinery processing (kt)	2014	2015	Ch. %
Domestic crude oil	394	553	40.2
Imported crude oil	1,880	2,212	17.7
Condensate	102	85	(16.5)
Other feedstock	749	673	(10.2)
Total refinery throughput	**3,125**	**3,523**	**12.7**

Refinery production (kt)	2014	2015	Ch. %
LPG	190	210	10.5
Motor gasoline	824	946	14.9
Diesel	1,022	1,130	10.6
Heating oil	107	144	34.0
Kerosene	107	105	(1.9)
Naphtha	33	52	58.5
Fuel oil	358	389	8.8
Bitumen	3	-	n.a.
Other products*	86	108	26.5
Total	**2,728**	**3,085**	**13.1**
Refinery loss	22	29	30.7
Own consumption	374	409	9.3
Total refinery production	**3,125**	**3,523**	**12.7**

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

Refined product sales by country (kt)	2014	2015	Ch. %
Croatia	1,756	1,790	1.9
B&H	510	523	2.6
Slovenia	151	183	21.6
Other markets	867	1,126	29.9
Total	**3,284**	**3,622**	**10.3**

Refined product sales by product (kt)	2014	2015	Ch. %
LPG	214	238	11.4
Motor gasoline	844	940	11.4
Diesel	1,415	1,465	3.6
Heating oil	146	172	18.2
Kerosene	128	127	(1.1)
Naphtha	37	49	34.1
Fuel oil	366	394	7.6
Bitumen	40	37	(7.4)
Other products*	95	199	110.5
Total	**3,284**	**3,622**	**10.3**
o/w Retail segment sales	994	996	0.2

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

In 2015 CCS-based EBITDA excl. special items increased and reached HRK 307 million, while EBITDA amounted to HRK (575) million, a considerable improvement over 2014 levels.

Refining & Marketing operations

The result was driven by 1) a sustained favorable external environment due to positive effect of crude price (average Brent price in the period compared to the previous year dropped from 99 USD/bbl to 52 USD/bbl) resulting in lower costs of own consumption and energy, 2) higher processing levels supported by improved refinery margins and 3) a continued crude slate optimization and higher utilization of both refining units, 4) higher sales driven by increasing domestic volumes as well as better motor fuel export sales to Slovenia, further supported by 5) lower fixed OPEX driven by efficiency efforts.

Retail operations

Total sales volumes of Retail segment in 2015 amounted to 996 kt, achieved in spite of still present economic downturn on level of sold volumes in 2014. The increase was mainly driven by higher sales of diesel and heating oil by 2% (15kt) while sales of motor gasoline is in a continuous decline 4% (13kt). In relation to the previous year, there was evident downward trend in motor gasoline share in favor of diesel fuel as a consequence of dieselization of market.
Throughput per site in 2015 was 1.5% higher compared to the previous year.
Non-fuel margin revenue increased compared to 2014, on the back of continuous goods supplier expansion and development of new, additional services.

Implementation of the new, business sustainable, retail operating model has been announced in Q4 2015. Around 70% of INA Retail employees will be transferred to a company within the INA Group; with continuity of service and material rights adjusted to labor market conditions. Start of the new model started in January 2016, while employees who decided against the transfer will be taken care of in line with the Collective Agreement. On 31 December 2015, INA Group operated a network of 438 Retail sites (388 in Croatia, 43 in Bosnia and Herzegovina, 6 in Slovenia and 1 in Montenegro), of which 39 Retail sites in Croatia were included in the Entrepreneurship model. Compared to 2014, four underperforming Retail sites were closed. The integration of seven INA Osijek Petrol sites in INA, d.d. was finished on 1st of November 2015.

Capital expenditures

Total capital expenditures amounted to HRK 613 million in 2015, HRK 138 million higher compared to 2014. Refining and Marketing capital expenditures amounted to HRK 451 million and mainly related to logistics projects, while Retail segment expenditures reached HRK 161 million, being HRK 5 million above the 2014. Retail segment in Croatia and Bosnia and Herzegovina completed six knock-down-rebuild projects, three modernization projects, five tank replacement projects and other minor modernization projects. Additional modernizations and improvements such as new „Fresh corner"nonfuel concept have been approved. Preparations and construction of 4 new highway Greenfield projects in Bosnia and Herzegovina also started.

Corporate Functions

Segment (in millions)	INA, d.d. 2014 HRK mn	2014 USD mn	2015 HRK mn	2015 USD mn	Change % HRK	Change % USD
Revenues	190	33	144	21	(24.2)	(36.5)
EBITDA reported	(274)	(48)	(325)	(47)	18.6	(0.6)
EBITDA excl. special items*	(274)	(48)	(293)	(43)	6.9	(10.4)
Operating profit/(loss) reported	(413)	(72)	(340)	(50)	(17.7)	(31.0)
Operating profit/(loss) excl. special items*	(393)	(68)	(328)	(48)	(16.5)	(30.1)
CAPEX and investments (w/o acquisition)	44	8	40	6	(9.1)	(23.8)

Segment (in millions)	INA GROUP 2014 HRK mn	2014 USD mn	2015 HRK mn	2015 USD mn	Change % HRK	Change % USD
Revenues	2,665	464	2,348	342	(11.9)	(26.2)
EBITDA reported	165	29	(53)	(8)	n.a.	n.a.
EBITDA excl. special items*	165	29	8	1	(95.2)	(95.9)
Operating profit/(loss) reported	(184)	(32)	(508)	(74)	176.1	131.3
Operating profit/(loss) excl. special items*	(117)	(20)	(260)	(38)	122.2	86.2
CAPEX and investments (w/o acquisition)	172	30	234	34	35.8	13.8

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

EBITDA excl. special items of the segment amounted to HRK 8 million, a decrease compared to 2014 level by HRK 157 million. EBITDA was lower mainly due to decreased contribution of Crosco, driven by lower engagement of drilling platforms due to unfavorable external environment.

INDUSTRIJA NAFTE, d.d.

Financial overview

Income statement – INA Group

Total sales revenues in 2015 amounted to HRK 18,861 million and were 21% below the 2014 level, primarily triggered by lower Exploration and production sales revenue due to lower Brent, and consequently also lower average wholesale and retail prices of oil derivatives.

Costs of raw materials and consumables were 26% below 2014 level at HRK 8,364 million, mainly resulting from lower prices.

Costs of goods sold in 2015 recorded a decrease of 24% compared to 2014, and amounted to HRK 2,809 million resulting from different sales structure.

Other **operating costs** realized in 2015 include:

- Other material costs were higher by 5% and amounted to HRK 2,572 million resulting from subcontractors costs related to STSI project in Belarus and maintenance costs.
- Service costs in the amount of HRK 706 million recorded a decrease of 29% mainly due to ENI tax posted in 2014 (cost related to 2013 for which provision was released in the same amount).
- Depreciation in the amount of HRK 2,191 million was 3% higher compared to 2014 mainly due to higher Exploration & Production depreciation.
- Adjustments and provisions had a negative effect in the amount of HRK 1,811 million and was HRK 349 million lower compared to 2014 resulting mainly from lower Syrian asset impairment.

Staff costs in the amount HRK 2,422 million were in line with 2014. Staff cost represents cost of net salaries in the amount of HRK 1,191 million, cost of tax and contributions for pension and health insurance in the amount of HRK 824 million, severance payments for employees whose employment contracts are terminated due to business reasons in amount of HRK186 million and other payroll related costs in the amount of HRK 221 million for the year ended 31 December 2015.

For the year ended 31 December 2014 staff cost includes cost of net salaries in the amount of HRK 1,250 million, cost of tax and contributions for pension and health insurance in the amount HRK 861 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 HRK 256 million.

Income tax in 2015 amounted to HRK 331 million (HRK 43 million of current tax expenses and HRK 374 million of deferred taxes benefit) and is lower compared to HRK 437 million in 2014.
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 2015 and 31 December 2014.

Net financial expenses recorded decrease in 2015 compared to 2014 resulting from lower FX loses and lower interest paid.

- Net foreign exchange loss was HRK 196 million in 2015 and is lower compared to HRK 236 million in 2014.
- Interest payable amounted to HRK 152 million and interest received to HRK 21 million while in 2014 interest payable amounted to HRK 313 million and interest received to HRK 19 million.
- Other financial net expenses amounted to HRK 84 million and are higher compared to HRK 82 million in 2014

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INDUSTRIJA NAFTE, d.d.

Income statement – INA d.d.

Total sales revenues in 2015 amounted HRK 17,161 million, 19% lower compared to 2014 level, primarily triggered by lower Exploration and production sales revenue due to lower Brent, and consequently also lower average wholesale and retail prices of oil derivatives.

Costs of raw materials and consumables were 30% lower and amounted to HRK 8,102 million, resulting from lower prices.

Costs of goods sold recorded decrease of 8%, and amounted HRK 2,497 million, resulting from different sales structure.

Within the **other operating costs** realized in 2015:

- Other material costs were higher by 6% and amounted to HRK 2,086 million mostly related to higher royalty costs because of regulation changes and maintenance costs.
- Service costs in the amount of HRK 563 million recorded an decrease of 30% mainly due to ENI tax posted in 2014 (cost related to 2013 for which provision was released in the same amount).
- Depreciation was 5% higher and amounted to HRK 2,078 million mainly due to higher Exploration & Production depreciation.
- Adjustments and provisions had a negative effect of HRK 1,461 million and were higher for HRK 1,389 million compared to 2014 due to reversal of receivables value adjustments, which is related to Prirodni plin merger into INA d.d. in Q4 2014.

Staff costs in the amount HRK 1,618 million were 9% higher than 2014.

Net financial expense in the amount of HRK 332 million were recorded in 2015, compared to the financial profit of HRK 52 million in 2014.

Restatement

*A change has been made in the recording of „Impairment of short term loans - financial cost" originally recorded in „Value Adj. and other Provisions Impairment charges (net)", which are now recorded in „Financial costs"; „Reversal of impairment before insolvency deal" originally recorded in „Finance Costs", which are now recorded in „Value Adj. and other Provisions Impairment charges (net)"; "Book value of tangible & intangible assets sold" originally recorded in "Value Adj. and other Provisions Impairment charges (net)" are now recorded in „Other Operating Income"; "Interest - tax & contributions" originally recorded in "Service costs" are now recorded in „Finance expenses"; "Realized and unrealized gain and loss of non-hedge commodity price transactions" from "Financial income and expenses" are now recorded in "Other Income".

Special items

In addition to international accounting standards, international reporting standards and regulatory requests the company discloses special items to achieve a 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. INA has adopted the materiality level for the special items in the amount of USD 10 million or above. If special items reaches materiality level on cumulative basis, previous quarters are restated. Furthermore, in accordance with the adopted accounting policies and IFRS 36 – Impairment of Assets, INA performs impairment testing at the end of each reporting period if impairment indicators are assessed to be significant.

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 fulfil the highest requests of consistency and reliability. For this purpose and also for the 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 Exploration and production and Refining and Marketing including Retail is based on delivered quantities. This line shows the effect of the change on operating profit 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 company level profit is only reported when the related third party sale has taken place. Intersegment EBITDA effect on results in 2015 is HRK +142 million which is higher compared to HRK -21 million in 2014 due to different operational mode of Sisak refinery.

Consolidated Statement of financial position – INA Group

As at 31 December 2015 INA Group **total assets** amounted to HRK 20,382 million and were 8% lower compared to 31 December 2014.

At 31 December 2015, INA d.d. invested HRK 47 million in intangible assets. The effect of depreciation decreases the intangible assets for HRK 35 million. Foreign exchange revaluation of oil and gas fields increased value of intangible assets in amount of HRK 2 million. Impairment of exploration wells in Syria decreased value of intangible asset in the amount of HRK 102 million. Additionally, the values of intangible assets was increased due to buying the emission quotas in amount of HRK 23 million. Transfer to PP&E equals HRK 3 million.

In the period ended 31 December 2015, INA d.d. invested HRK 1.593 million in property, plant and equipment. Foreign exchange revaluation increased net book value in amount of HRK 321 million Capitalized decommissioning costs increased the value of assets by HRK 127 million. The effect of depreciation reduced net book value of property, plant and equipment in amount of HRK 2.156 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 was HRK 56 million in 2015. Value adjustment and write-off of assets under construction decreased NBV in amount of HRK 25 million. Other changes in property, plant and equipment including value adjustment of assets in use amounts to HRK 1,197 million. Transfer from intangible assets increased NBV of PP&E in amount of HRK 3 million. Strategic inventories in amount of HRK 1 million are transferred from warehouses.

Issued capital as at 31 December 2015 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 1,820 million, and have decreased by 5% compared to 31 December 2014 as a result of lower Brent.

Trade receivables decreased to HRK 1,724 million and are 14% lower compared to the opening balance, on 31 December 2014 resulting from lower sales revenue.

As at 31 December 2015 **total liabilities** amounted to HRK 9,797 which is 7% or HRK 758 million lower compared to 31 December 2014
INA Group **net debt** increased slightly by 1% and amounted to HRK 3,032 million compared to 31 December 2014 due to negative changes in working capital. **Gearing ratio**[2] increased from 20.4% as at 31 December 2014, to 22.3% as at 31 December 2015.

Trade payables decreased by 18% to HRK 1,400 million, as a result of lower liabilities for imported crude oil.

Consolidated Statement of financial position– INA d.d.

Total assets of INA, d.d., as at 31 December 2015 amounted to HRK 19,816 million and were 6% lower compared to 31 December 2014.

Property, plant and equipment amounted to HRK 11,542 million and were lower 8% than at as 31 December 2014.

Trade receivables outside of INA-Group amounted to HRK 1,176 million and were 16% lower compared to 31 December 2014.

Total liabilities amounted to HRK 9,307 million and were 4% lower compared to 31 December 2014.

Net indebtedness of INA, d.d., amounted to HRK 2,846 million as at 31 December 2015 what is 1% lower compared to 31 December 2014. **Gearing ratio**[2] increased from 20.0% as at 31 December 2014 to 21.3% as at 31 December 2015.

As at 31 December 2015 **trade payables** outside of INA-Group amounted HRK 967 million, which is a decrease of 23% compared to the 31 December 2014 level.

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

INDUSTRIJA NAFTE, d.d.

Cash flow – INA Group

The **operating cash-flow before changes in working capital** amounted to HRK 2,549 million in 2015 representing an increase of HRK 52 million, or 2%, compared to 2014, which is in line with change in EBITDA performance compared to the previous year.

Changes in working capital affected the operating cash flow negatively by HRK 413 million, due to:

- Decrease in trade and other payables by HRK 645 million as result of lower liabilities for imported crude oil.
- Decreased value of inventories by HRK 12 million due to lower Brent, partly compensated by higher volumes of imported crude.
- Decrease in receivables by HRK 220 million as a result of lower sales revenues in 2015 compared to 2014.

Net outflows in investing activities amounted to HRK 1,508 million, in comparison with HRK 1,465 million outflows in 2014.

Cash flow – INA d.d.

The operating cash-flow before changes in working capital amounted to HRK 2,424 million in 2015, which is a decrease of 12% compared to the same period last year.

Changes in working capital affected the operating cash flow negatively by HRK 628 million, primarily due to:

- Increase value of inventories by HRK 39 million,
- Decrease in receivables by HRK 266 million,
- Payables decreased by HRK 855 million.

Taxes paid influenced the operating cash flow in the amount of HRK 114 million. All the above factors resulted in HRK 1,682 million net inflows from operating activities generated by INA d.d. in 2015.

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 credit risk and 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 31 December 2015, INA had opened short-term forward commodity swap transactions to hedge its exposure to changes in pricing periods and to changes in inventory levels.

Foreign currency risk management
Many INA Group's transactions are priced and denominated in foreign currency and thus INA Group is exposed to currency risk. INA Group has net long USD and EUR, and net short HRK exposure of operative cash flow position. INA Group may use cross currency swaps to adjust the currency mix of the debt portfolio. As of 31 December 2015, there were no open cross currency swap transactions.

Interest rate risk management
INA Group companies use borrowed funds at both floating and fixed interest rates and consequently INA Group is exposed to the interest rate risk. INA Group does not speculate on interest rate developments and generally chooses floating rates. INA Group may use interest rate swap to manage interest rate risk. As of 31 December 2015, 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 “Customer Credit Management Procedure” creditworthiness and risk in dealing with customers is estimated based on internal credit assessment model as well as on the services provided by credit rating agencies. There is no significant credit risk exposure of INA Group that is not covered with payment security instruments, 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 and attorneys-at-law offices for “out-of-court” collection of receivables.

c) Liquidity risk
INA Group's liquidity risk is managed by maintaining adequate reserves of liquidity and credit lines and by continuous monitoring of projected and actual cash flow and due dates for account receivables and payables.
As of 31 December 2015, INA Group had contracted and available short-term credit lines amounting to HRK 1.69 bn excluding overdrafts and trade financing credit lines established with the purpose to finance the purchase of crude oil and oil products, and contracted and available long-term credit lines amounting to HRK 3.34 bn.

Investments in INA portfolio companies

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

Name of company	Activity	Shareholding 31 Dec 2015	Shareholding 31 Dec 2014
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 leasing	100%	100%
Sea Horse Shipping Inc, Marshall Islands	Platform leasing	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 (sold Oct 6, 2015)	Oilfield services	-	49%
CorteCros d.o.o., Zagreb	Production and distribution of anti-corrosion products	60%	60%
Oil exploration and production			
*INA Naftaplin International Exploration and Production Ltd, Guernsey	Oil exploration and production	100%	100%
Tourism			
*Hostin d.o.o. Zagreb	Tourism	100%	100%
Auxillary services			
*STSI integrirani tehnički servisi d.o.o. Zagreb	Technical services	100%	100%
*ITR d.o.o., Zagreb – merged in STSI Jan 1, 2015	Car rental	-	100%
*TRS Top računovodstvo servisi d.o.o. za računovodstvene usluge	Accounting, book-keeping, auditing, tax consulting	100%	100%
* Plavi tim d.o.o., Zagreb – newly established Nov 4, 2015	IT services	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	Trading	100%	100%
*INA BH d.d. Sarajevo, Bosnia and Herzegovina	Trading	100%	100%
*Interina d.o.o. Skopje, Macedonia (bankruptcy completed July 1, 2014)	Trading	-	-
*Holdina (Guernsey) Ltd, Guernsey (liquidation completed July 7, 2015)	Trading	-	100%
*Holdina d.o.o. Sarajevo, B&H	Trading	100%	100%
*INA d.o.o. Beograd, Serbia	Trading	100%	100%
*INA Kosovo d.o.o. Priština	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	Trading	100%	100%
*Prirodni plin d.o.o. Zagreb – merged in INA Nov 3, 2014	Trading	-	-
*INA BL d.o.o. Banja Luka	Trading	100%	100%
*Petrol d.d. Jurdani	Trading	100%	83.26%
*INA-Osijek – Petrol d.d. – merged in INA Nov 2, 2015	Trading	-	100%
*Polybit d.o.o. Rijeka (liquidation completed Nov 12, 2015)	Oil production and trading	-	100%
INA Maloprodajni servisi d.o.o.	Trading	100%	100%

INDUSTRIJA NAFTE, d.d.

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 2015, INA Group entered into the following trading transactions with the following related parties:

INA-Group	Sales of goods	Purchase of goods
HRK mln	31 Dec 2015	31 Dec 2015
Companies available for sale		
JANAF d.d. Zagreb	3	50
Strategic partner		
MOL Nyrt.	563	777
Companies controlled by strategic partner		
Tifon d.o.o.	523	17
Energopetrol d.d.	257	-
MOL SLOVENIJA d.o.o.	95	66
Kalegran Ltd.	53	2
MOL Petrochemical Co. Ltd.	27	4
Slovnaft, a.s.	22	412

INA-Group	Amounts owed from related parties	Amounts owed to related parties
HRK mln	31 Dec 2015	31 Dec 2015
Companies available for sale		
JANAF d.d. Zagreb	1	2
Strategic partner		
MOL Nyrt.	35	36
Companies controlled by strategic partner		
Kalegran Ltd.	101	-
Energopetrol d.d.	51	-
Tifon d.o.o.	45	1
MOL SLOVENIJA d.o.o.	3	5
Slovnaft, a.s.	1	4
ROSSI BIOFUEL ZRT.	-	7

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 2015 are disclosed below:

INA, d.d. HRK mln	Sales of goods	Purchase of goods
	31 Dec 2015	31 Dec 2015
Foreign related companies		
Holdina Sarajevo	1,867	1
INA Crna Gora d.o.o Podgorica	97	-
Osijek Petrol d.d.	46	-
STSI d.o.o. Zagreb	27	662
Crosco d.o.o.	20	313
INA Maziva d.o.o.	10	54
Interina d.o.o. Ljubljana	8	-
TOP Računovodstvo Servisi d.o.o.	7	49
Hostin	1	-
Rotary Drilling Co Ltd Hungary	1	-
Adrigas Milano	1	-
INA d.o.o.Banja Luka	-	1
Plavi Tim d.o.o.	-	5
Companies available for sale		
JANAF d.d. Zagreb	3	50
Strategic partner		
MOL Nyrt	336	619
Companies controlled by strategic partner		
Tifon d.o.o.	522	17
MOL Commodity Trading KFt	-	37
MOL SLOVENIJA d.o.o.	92	-
MOL Petrochemical Co.Ltd.	27	-
Energopetrol d.d.	25	-
Slovnaft, a.s.	22	412
MOL Srbia d.o.o.	16	-
Mol Germany	4	-
Kalegran Ltd.	2	-
Slovnaft Vurup, a.s.	-	1
Rossi Biofuel zrt.	-	7
IES-Italiana Energia e Servizi s.p.a.	-	5

INA, d.d. HRK mln	Amounts owed from related parties 31 Dec 2015	Amounts owed to related parties 31 Dec 2015
Foreign related companies		
Holdina Sarajevo	117	5
Crosco d.o.o.	69	70
STSI d.o.o. Zagreb	10	184
INA Crna Gora d.o.o Podgorica	6	-
INA Maziva d.o.o.	5	6
Interina d.o.o. Ljubljana	1	-
TOP Računovodstvo Servisi d.o.o.	1	5
Plavi Tim d.o.o.	-	6
Companies available for sale		
JANAF d.d. Zagreb	1	2
Strategic partner		
MOL Nyrt	9	26
Companies controlled by strategic partner		
Tifon d.o.o.	45	1
MOL SLOVENIJA d.o.o.	3	-
Energopetrol d.d.	1	-
Slovnaft, a.s.	1	4
IES-Italiana Energia e Servizi s.p.a.	-	1
Rossi Biofuel Zrt.	-	7

INDUSTRIJA NAFTE, d.d.

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

	INA, d.d.			INA GROUP		
	2014 HRK mn	2015 HRK mn	Ch. %	2014 HRK mn	2015 HRK mn	Ch. %
Sales						
Exploration & Production	5,655	4,967	(12)	6,732	4,970	(26)
Refining & Marketing including Retail	17,600	14,299	(19)	18,222	14,831	(19)
Corporate and Other	190	144	(24)	2,665	2,348	(12)
Inter-segment revenue	(2,366)	(2,249)	(5)	(3,860)	(3,288)	(15)
Sales	**21,079**	**17,161**	**(19)**	**23,759**	**18,861**	**(21)**
Operating expenses, net other income from operating activities						
Exploration & Production	(2,678)	(4,655)	74	(5,771)	(4,598)	(20)
Refining & Marketing including Retail	(20,122)	(15,597)	(22)	(20,721)	(16,156)	(22)
Corporate and Other	(603)	(484)	(20)	(2,849)	(2,856)	0
Inter-segment eliminations	2,422	2,409	(1)	3,860	3,411	(12)
Expenses	**(20,981)**	**(18,327)**	**(13)**	**(25,481)**	**(20,199)**	**(21)**
Profit/(loss) from operations						
Exploration & Production	2,977	312	(90)	961	372	(61)
Refining & Marketing including Retail	(2,522)	(1,298)	(49)	(2,499)	(1,325)	(47)
Corporate and Other	(413)	(340)	(18)	(184)	(508)	176
Inter-segment eliminations	56	160	186	-	123	n.a.
Profit from operations	**98**	**(1,166)**	**n.a.**	**(1,722)**	**(1,338)**	**(22)**
Share in the profit of associate companies						
Net loss from financial activities	**52**	**(332)**	**n.a.**	**(612)**	**(411)**	**(33)**
Profit before taxation	**150**	**(1,498)**	**n.a.**	**(2,334)**	**(1,749)**	**(25)**
Income tax expense	**481**	**296**	**(38)**	**437**	**331**	**(24)**
Profit for the year	**631**	**(1,202)**	**n.a.**	**(1,897)**	**(1,418)**	**(25)**
Depreciation						
Exploration & Production	1,356	1,487	10	1,344	1,468	9
Refining & Marketing including Retail	554	523	(6)	570	533	(6)
Corporate and Other	70	68	(3)	218	190	(13)
Total	**1,980**	**2,078**	**5**	**2,132**	**2,191**	**3**
EBITDA*						
Exploration & Production	3,756	3,109	(17)	3,739	3,150	(16)
Refining & Marketing including Retail	(1,367)	(591)	(57)	(1,313)	(575)	(56)
Corporate and Other	(274)	(325)	19	165	(53)	n.a.
Inter-segment eliminations	35	180	414	(21)	142	n.a.
Total	**2,150**	**2,373**	**10**	**2,570**	**2,664**	**4**
EBIT wo special items						
Exploration & Production	4,581	1,316	(71)	2,565	1,376	(46)
Refining & Marketing including Retail	(1,958)	(1,074)	(45)	(1,935)	(1,101)	(43)
Corporate and Other	(393)	(328)	(17)	(117)	(260)	122
Inter-segment eliminations	56	160	186	-	123	n.a.
Total	**2,286**	**74**	**(97)**	**513**	**138**	**(73)**

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

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

INDUSTRIJA NAFTE, d.d.

Condensed Consolidated Income Statement
INA Group and INA d.d. for the period ended 31 December 2014 and 2015
(in HRK millions)

	INA, d.d.			INA GROUP		
	2014 HRK mn	2015 HRK mn	Ch. %	2014 HRK mn	2015 HRK mn	Ch. %
Sales revenue						
a) domestic	13,394	10,870	(19)	14,187	11,116	(22)
b) exports	7,685	6,291	(18)	9,572	7,745	(19)
Total sales revenue	**21,079**	**17,161**	**(19)**	**23,759**	**18,861**	**(21)**
Income from own consumption of products and services	4	9	125	459	466	2
Other operating income	351	302	(14)	267	448	68
Total operating income	**21,434**	**17,472**	**(18)**	**24,485**	**19,775**	**(19)**
Changes in inventories of finished products and work in progress	(705)	(233)	(67)	(935)	(238)	(75)
Cost of raw materials and consumables	(11,624)	(8,102)	(30)	(11,353)	(8,364)	(26)
Depreciation and amortization	(1,980)	(2,078)	5	(2,132)	(2,191)	3
Other material costs	(1,960)	(2,086)	6	(2,455)	(2,572)	5
Service costs	(803)	(563)	(30)	(1,000)	(706)	(29)
Staff costs	(1,488)	(1,618)	9	(2,467)	(2,422)	(2)
Cost of other goods sold	(2,704)	(2,497)	(8)	(3,705)	(2,809)	(24)
Impairment and charges (net)	7	(1,213)	n.a.	(2,052)	(1,546)	(25)
Provisions for charges and risks (net)	(79)	(248)	214	(108)	(265)	145
Operating expenses	**(21,336)**	**(18,638)**	**(13)**	**(26,207)**	**(21,113)**	**(19)**
Profit/(loss) from operations	**98**	**(1,166)**	**n.a.**	**(1,722)**	**(1,338)**	**(22)**
Share in the profit of associated companies	-	-	0	-	-	0
Finance income	780	306	(61)	208	197	(5)
Finance costs	(728)	(638)	(12)	(820)	(608)	(26)
Net loss from financial activities	**52**	**(332)**	**n.a.**	**(612)**	**(411)**	**(33)**
Profit/(loss) before tax	**150**	**(1,498)**	**n.a.**	**(2,334)**	**(1,749)**	**(25)**
Income tax expense	481	296	(38)	437	331	(24)
Profit/(loss) for the year	**631**	**(1,202)**	**n.a.**	**(1,897)**	**(1,418)**	**(25)**
Attributable to						
Owners of the Company	631	(1,202)	n.a.	(1,897)	(1,418)	(25)
Non-controlling interests	-	-	n.a.	-	-	n.a.
	631	**(1,202)**	**n.a.**	**(1,897)**	**(1,418)**	**(25)**
Earnings per share						
Basic and diluted earnings/(loss) per share (kunas per share)	63.1	(120.2)	n.a.	(189.7)	(141.8)	(25)

Condensed Consolidated Statement of Comprehensive Income
INA Group and INA d.d. for the period ended 31 December 2014 and 2015
(in HRK million)

	INA, d.d.			INA GROUP		
	2014 HRK mn	2015 HRK mn	Ch. %	2014 HRK mn	2015 HRK mn	Ch. %
Profit/(loss) for the year	**631**	**(1,202)**	**n.a.**	**(1,897)**	**(1,418)**	**(25)**
Remeasurement of defined benefit obligation	-	29	n.a.	-	36	n.a.
Exchange differences on translating foreign operations	596	355	(40)	567	358	(37)
Net fair value gain/(loss) on available-for-sale financial assets	115	95	(17)	115	95	(17)
Other comprehensive income, net	**711**	**479**	**(33)**	**682**	**489**	**(28)**
Total comprehensive income/(loss) for the year	**1,342**	**(723)**	**n.a.**	**(1,215)**	**(929)**	**(24)**
Attributable to:						
Owners of the Company				(1,215)	(929)	(24)
Non-controlling interests				-	-	n.a.

INDUSTRIJA NAFTE, d.d.

Condensed Consolidated Statement of Financial Position INA-Group and INA d.d. at 31 December 2015 (in HRK millions)

	INA, d.d.			INA GROUP		
	31 Dec 2014 HRK mn	31 Dec 2015 HRK mn	Ch. %	31 Dec 2014 HRK mn	31 Dec 2015 HRK mn	Ch. %
Assets						
Non-current assets						
Intangible assets	455	385	(15)	457	388	(15)
Property, plant and equipment	12,564	11,542	(8)	14,038	12,730	(9)
Goodwill	-	-	0	183	152	(17)
Investments in subsidiaries	1,133	1,000	(12)	-	-	0
Investments in associates and joint ventures	22	22	0	22	22	0
Other investments	23	692	2,909	23	14	(39)
Long-term receivables	178	149	(16)	170	144	(15)
Derivative financial instruments	-	-	0	-	-	n.a.
Deferred tax	1,702	1,995	17	1,742	2,094	20
Available for sale assets	462	581	26	462	581	26
Total non-current assets	16,539	16,366	(1)	17,097	16,125	(6)
Current assets						
Inventories	1,659	1,597	(4)	1,924	1,820	(5)
Trade receivables net	1,399	1,176	(16)	1,998	1,724	(14)
Intercompany receivables	117	140	20	-	-	0
Other receivables	122	84	(31)	181	136	(25)
Corporative income tax receivables	92	8	(91)	112	23	(79)
Derivative financial instruments	-	-	0	-	-	0
Other current assets	789	208	(74)	282	224	(21)
Prepaid expenses and accrued income	149	42	(72)	154	54	(65)
Cash and cash equivalents	327	195	(40)	467	275	(41)
Current assets	4,654	3,450	(26)	5,118	4,256	(17)
Assets classified as held for sale	-	-	n.a.	-	1	n.a.
Total current assets	4,654	3,450	(26)	5,118	4,257	(17)
Total assets	21,193	19,816	(6)	22,215	20,382	(8)
Equity and liabilities						
Capital and reserves						
Share capital	9,000	9,000	0	9,000	9,000	0
Legal reserves	330	330	0	330	330	0
Revaluation reserve	121	216	79	121	216	79
Other reserves	2,529	1,273	(50)	2,851	1,641	(42)
Retained earnings / (Deficit)	(504)	(310)	(38)	(641)	(602)	(6)
Equity attributable to equity holder of the parent	11,476	10,509	(8)	11,661	10,585	(9)
Non-controlling interests	-	-	n.a.	(1)	0	n.a.
Total equity	11,476	10,509	(8)	11,660	10,585	(9)
Non-current liabilities						
Long-term loans	619	400	(35)	628	400	(36)
Other non-current liabilities	63	65	3	64	66	3
Employee benefits obligation	128	66	(48)	172	101	(41)
Provisions	2,849	3,374	18	2,837	3,266	15
Deferred tax liability	-	-	0	9	22	144
Total non-current liabilities	3,659	3,905	7	3,710	3,855	4
Current liabilities						
Bank loans and overdrafts	2,391	2,508	5	2,631	2,768	5
Current portion of long-term debt	187	133	(29)	199	139	(30)
Intercompany payables	443	488	10	-	-	0
Trade payables	1,256	967	(23)	1,713	1,400	(18)
Taxes and contributions	970	606	(38)	1,054	665	(37)
Other current liabilities	293	216	(26)	554	271	(51)
Accruals and deferred income	88	17	(81)	114	64	(44)
Employee benefits obligation	8	4	(50)	12	8	(33)
Provisions	422	463	10	568	627	10
Current liabilities	**6,058**	**5,402**	**(11)**	**6,845**	**5,942**	**(13)**
Total current liabilities	**6,058**	**5,402**	**(11)**	**6,845**	**5,942**	**(13)**
Total liabilities	**9,717**	**9,307**	**(4)**	**10,555**	**9,797**	**(7)**
Total equity and liabilities	**21,193**	**19,816**	**(6)**	**22,215**	**20,382**	**(8)**

Condensed Consolidated Cash Flow Statement
INA Group and INA d.d. for the period ended 31 December 2014 and 2015
(in HRK millions)

	INA, d.d.			INA GROUP		
	2014	2015	Ch. %	2014	2015	Ch. %
Profit/(loss) for the year	631	(1,202)	n.a.	(1,897)	(1,418)	(25)
Adjustments for:						
Depreciation and amortisation	1,980	2,078	5	2,132	2,191	3
Income tax expense recognised in income statement	(481)	(296)	(38)	(437)	(331)	(24)
Impairment charges (net)	(7)	1,213	n.a.	2,052	1,546	(25)
Gain on sale of property, plant and equipment	-	(10)	n.a.	(16)	(19)	19
Gain on sale investments and shares	-	-	0	-	(32)	n.a.
Foreign exchange loss/(gain)	192	139	(28)	249	205	(18)
Interest income, net	(105)	(12)	(89)	196	58	(70)
Other financial expense recognised in profit	152	152	0	77	77	0
Increase in provisions	252	262	4	47	194	313
Decommissioning interests	87	75	(14)	89	70	(21)
Other non-cash items	63	25	(60)	5	8	60
Operating cash flow before working capital changes	**2,764**	**2,424**	**(12)**	**2,497**	**2,549**	**2**
Movements in working capital						
(Increase)/decrease in inventories	766	(39)	n.a.	1,201	12	(99)
(Increase)/decrease in receivables and prepayments	1,090	266	(76)	839	220	(74)
(Decrease)/increase in trade and other payables	(910)	(855)	(6)	(534)	(645)	21
Cash generated from operations	**3,710**	**1,796**	**(52)**	**4,003**	**2,136**	**(47)**
Taxes paid	(86)	(114)	33	(154)	(157)	2
Net cash inflow from operating activities	**3,624**	**1,682**	**(54)**	**3,849**	**1,979**	**(49)**
Cash flows used in investing activities						
Capital expenditures, exploration and development costs	(1,542)	(1,394)	(10)	(1,292)	(1,561)	21
Payment for intangible assets	(28)	(61)	118	(297)	(38)	(87)
Proceeds from sale of non-current assets	-	10	n.a.	34	33	(3)
Payments related to sale of subsidiary	-	2	n.a.	-	(3)	n.a.
Proceeds from sale of investments	-	-	0	-	-	0
Acquisition of investments in associates and joint ventures and other companies	-	-	0	-	-	0
Dividends received from companies classified as available for sale and from other companies	7	7	(0)	7	1	(86)
Payments related to sale of subsidiary	4	16	300	-	-	n.a.
Interest received and other financial income	82	53	(35)	34	15	(56)
Investments and loans to third parties, net	54	(99)	n.a.	49	45	(8)
Net cash used for investing activities	**(1,423)**	**(1,466)**	**3**	**(1,465)**	**(1,508)**	**3**
Cash flows from financing activities						
Additional long-term borrowings	2,202	1,602	(27)	2,202	1,602	(27)
Repayment of long-term borrowings	(3,564)	(1,913)	(46)	(3,706)	(1,926)	(48)
Additional short-term borrowings	14,767	12,427	(16)	14,715	12,237	(17)
Repayment of short term borrowings	(15,368)	(12,268)	(20)	(15,258)	(12,221)	(20)
Dividends paid	-	(150)	n.a.	-	(150)	n.a.
Interest paid on long-term loans	(41)	(15)	(63)	(45)	(16)	(64)
Other long-term liabilities, net	(2)	3	n.a.	-	-	0
Interest paid on short term loans and other financing charges	(121)	(35)	(71)	(199)	(149)	(25)
Net cash from financing activities	**(2,127)**	**(349)**	**(84)**	**(2,291)**	**(623)**	**(73)**
Net (decrease)/increase in cash and cash equivalents	74	(133)	n.a.	93	(152)	n.a.
At 1 January	252	327	30	402	467	16
Effect of foreign exchange rate changes	1	1	0	(28)	(40)	43
At the end of period	327	195	(40)	467	275	(41)

INDUSTRIJA NAFTE, d.d.

Condensed Consolidated Statement of Changes in Equity INA Group and INA d.d. for the period ended 31 December 2014 and 2015 (in HRK millions)

Attributable to equity holders of the parent

INA, d.d.	Share capital	Legal reserves	Other reserves	Revaluation reserves	Retained profits / (Accumulated deficit)	Total
Balance as at 1 January 2014	**9,000**	**330**	**1,933**	**6**	**2,060**	**13,329**
Profit for the year	-	-	-	-	631	631
Other comprehensive profit, net	-	-	596	115	-	711
Total comprehensive profit for the year	-	-	596	115	631	1,342
Loss brought forward from legal merger	-	-	-	-	(3,195)	(3,195)
Balance as at 31 Dec 2014	**9,000**	**330**	**2,529**	**121**	**(504)**	**11,476**
Balance as at 1 January 2015	**9,000**	**330**	**2,529**	**121**	**(504)**	**11,476**
Loss for the period	-	-	-	-	(1,202)	(1,202)
Other comprehensive income, net	-	-	384	95	-	479
Total comprehensive income/(loss) for the year	-	-	384	95	(1,202)	(723)
Dividends paid	-	-	-	-	(150)	(150)
	-	-	-	-	-	-
Balance as at 31 Dec 2015	**9,000**	**330**	**1,273**	**216**	**(310)**	**10,509**

INA-Group	Share capital	Legal reserves	Other reserves	Revaluation reserves	Retained profits / (Accumulated deficit)	Total	Non controlling interest	Total equity
Balance as at 1 January 2014	**9,000**	**330**	**2,284**	**6**	**1,256**	**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, net	-	-	567	115	(1,897)	(1,215)	-	(1,215)
Balance as at 31 Dec 2014	9,000	330	2,851	121	(641)	11,661	(1)	11,660
Balance as at 1 January 2015	**9,000**	**330**	**2,851**	**121**	**(641)**	**11,661**	**(1)**	**11,660**
Loss for the period	-	-	-	-	(1,418)	(1,418)	-	(1,418)
Other comprehensive income, net	-	-	394	95	-	489	-	489
Total comprehensive loss for the year	-	-	394	95	(1,418)	(929)	-	(929)
Transfer other reserves to retained earnings	-	-	(1,640)	-	1,640	-	-	-
Reclasification of exchange differences arrising from foreign operations to retained earnings	-	-	36	-	(33)	3	1	4
Dividends paid	-	-	-	-	(150)	(150)	-	(150)
Balance as at 31 Dec 2015	**9,000**	**330**	**1,641**	**216**	**(602)**	**10,585**	**-**	**10,585**

INDUSTRIJA NAFTE, d.d.

Special items in operating profit and EBITDA
(in HRK mln)

	INA, d.d. 2014	INA, d.d. 2015	INAGROUP 2014	INAGROUP 2015
INA, d.d.				
Total impact of special items on net profit/(loss)	**(2,394)**	**(1,373)**	**(2,441)**	**(1,476)**
Total impact of special items on operating profit/(loss)	**(2,188)**	**(1,240)**	**(2,235)**	**(1,476)**
Total impact of special items on EBITDA	**(119)**	**(258)**	**(119)**	**(288)**
Exploration & Production				
Total impact of special items on operating profit/(loss)	**(1,604)**	**(1,004)**	**(1,604)**	**(1,004)**
Total impact of special items on EBITDA	**-**	**(62)**	**-**	**(62)**
Impairment of assets - Syria, Cro Offshore, Angola, Egypt	(1,562)	(987)	(1,562)	(987)
Severance payment	-	(62)	-	(62)
Provisions for incentives	(42)	(17)	(42)	(17)
Refining & Marketing including Retail				
Total impact of special items on operating profit/(loss)	**(564)**	**(224)**	**(564)**	**(224)**
Total impact of special items on EBITDA	**(119)**	**(164)**	**(119)**	**(165)**
Impairment of assets	(395)	-	(395)	-
Refinery - tax case*	(119)	-	(119)	-
Severance payment	-	(164)	-	(165)
Provisions for incentives	(50)	(224)	(50)	(224)
Corporate functions				
Total impact of special items on operating profit/(loss)	**(20)**	**(12)**	**(67)**	**(248)**
Total impact of special items on EBITDA	**-**	**(32)**	**-**	**(61)**
Impairment of assets - Zagreb 1, Libya			(34)	(234)
Severance payment	-	(32)	-	(61)
Provisions for incentives	(20)	(12)	(33)	(14)
Impacts on financial result and income tax				
Finance expenses*	(106)	(133)	(106)	-
Income tax*	(100)	-	(100)	-

*Total impact of refinery tax case amounts to HRK 325 mln in 2014
IAS 36 Platforma Zagreb share correction

Main external parameters

	2014	2015	Ch. %
Brent dtd (USD/bbl)	99.0	52.4	(47.1)
Brent-Ural spread	1.0	0.5	(48.3)
Premium unleaded gasoline 10 ppm (USD/t)*	905.3	557.2	(38.4)
Gas oil – ULSD 10 ppm (USD/t)*	850.5	493.8	(41.9)
Fuel oil 3,5% (USD/t)*	526.1	254.9	(51.6)
LPG (USD/t)*	774.1	446.5	(42.3)
Average crack spread	59.0	72.8	23.5
Crack spread – premium unleaded (USD/t)*	162.6	160.9	(1.0)
Crack spread – gas oil (USD/t)*	101.5	97.5	(4.0)
Crack spread - fuel oil 3,5% (USD/t)*	(220.3)	(141.4)	(35.8)
Crack spread - LPG (USD/t)*	22.3	50.2	125.4
HRK/USD average	5.75	6.86	19.3
HRK/USD closing	6.30	6.99	10.9
HRK/EUR average	7.63	7.61	(0.3)
HRK/EUR closing	7.66	7.64	(0.3)
3m USD LIBOR (%)	0.23	0.32	35.1
3m EURIBOR (%)	0.21	-0.020	n.a.

** FOB Mediterranean*

Subsequent events after the balance sheet date

There are no significant subsequent events after the balance sheet date

Announcements in 2015

28 December 2015	Personnel changes in the Finance Business Function
2 December 2015	USD 300 million revolving credit facility agreement signed
30 November 2015	Announcement on Plavi Tim
23 November 2015	New retail operating model
28 August 2015	Merger agreement between Ina d.d. and INA-Osijek Petrol d.d.
30 July 2015	Agreement on new retail operating model
20 July 2015	Contract signed with Petrokemija
12 June 2015	General Assembly Decisions
06 May 2015	Invitation to the General Assembly
31 March 2015	Supervisory Board meeting held
31 March 2015	Code of Corporate Governance Questionnaire for 2014
13 March 2015	Regulated gas price decrease
24 February 2015	Revocation of exploration license
06 February 2015	Ruling from the Tax Administration
03 February 2015	Letter by MOL
21 January 2015	Verdict by the High Administrative Court
15 January 2015	Notice regarding inquiry of the Zagreb Stock Exchange

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

	31 Dec 2006	31 Dec 2007	31 Dec 2008 31 Dec 2009 31 Dec 2010	31 Dec 2011	31 Dec 2012 31 Dec 2013 31 Dec 2014	31 Dec 2015
MOL Plc.	2,500,001	2,500,001	4,715,538	4,725,620	4,908,207	4,908,207
Government of the Rep. of Croatia	5,180,367	4,484,918	4,483,552	4,483,552	4,483,552	4,483,552
Private and institutional investors	2,319,632	3,015,081	800,91	790,828	608,241	608,241
Total	**10,000,000**	**10,000,000**	**10,000,000**	**10,000,000**	**10,000,000**	**10,000,000**

Source: Central Clearing Depositary Company

Changes in organization, Management Board or Supervisory Board

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

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

Board of Executive Directors
During the fourth quarter there was no change in the Board of Executive Directors. Nevertheless on 28 December 2015 it was announced that effective from 1 February 2016, Dr. Ákos Székely will be replacing Mr. András Huszár as Executive Director for Finance.

Management representation

INA Group's consolidated financial statements for 2015 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