

INA GROUP and

INA - INDUSTRIJA NAFTE, d.d.

Consolidated and separate

Financial Statements for the year ended

31 December 2019

Together with Independent Auditors' Report

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Responsibility for the financial statements

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

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

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

- suitable accounting policies are selected and then applied consistently;
- judgements and estimates are reasonable and prudent;
- applicable accounting standards are followed and
- the financial statements are prepared on the going concern basis.

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 the 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 prevention and detection of fraud and other irregularities.

Signed on behalf of the Company and the Group:

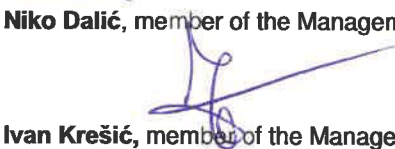
Sándor Fasimon, President of the Management Board of INA, d.d.



Niko Dalić, member of the Management Board



Ákos Székely, member of the Management Board



Ivan Krešić, member of the Management Board



Davor Mayer, member of the Management Board



Zsolt Pethő, member of the Management Board

INA - Industrija nafte, d.d.
Avenija Većeslava Holjevcica 10
10000 Zagreb
Republic of Croatia



11 March 2020

Independent auditor's report

To the Shareholders of INA - Industrija Nafta, d.d.

Report on the audit of the separate and consolidated financial statements

Opinion

We have audited the separate financial statements of INA - Industrija Nafta, d.d. ("the Company"), and consolidated financial statements of INA - Industrija Nafta, d.d. and its subsidiaries (together "the Group"), which comprise the separate and consolidated statement of financial position as at 31 December 2019, the separate and consolidated statement of profit or loss and the separate and consolidated statement of other comprehensive income, the separate and consolidated statement of changes in equity and the separate and consolidated statement of cash flows for the year then ended, and notes to the separate and consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate and consolidated financial statements give a true and fair view of the separate and consolidated financial position of the Company and Group as at 31 December 2019 and of its separate and consolidated financial performance and its separate and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU ("IFRS as adopted by EU").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the separate and consolidated financial statements* section of our report.

We are independent of the Company and Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate and consolidated financial statements of the current period. These matters were addressed in the context of our audit of the separate and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the separate and consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the separate and consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying separate and consolidated financial statements.



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Key Audit Matter	How we addressed Key Audit Matter
<p>Estimation of hydrocarbon reserves</p> <p>A description of the key judgements and estimates regarding estimation of hydrocarbon reserves are included in Note 3 Significant accounting judgements and estimates in the separate and consolidated financial statements.</p> <p>The estimation of hydrocarbon reserves is a significant area of judgement due to the technical uncertainty in assessing quantities and complex contractual arrangements dictating the Company's and the Group's share of reportable volumes. Hydrocarbon reserves are also a fundamental indicator of the future potential of the Company's and the Group's performance and these estimates affect significant amounts in the separate and consolidated statement of financial position and the separate and consolidated statement of profit or loss. Therefore, we believe that estimation of hydrocarbon reserves is a key audit matter.</p>	<p>Audit procedures included understanding of the process for determination of the hydrocarbon reserves and walkthrough of controls implemented in the process. We also assessed the competence and objectivity of technical experts to evaluate whether they are appropriately qualified to carry out the hydrocarbon reserve volumes estimation. We performed specific inquiry to the management of the Company and the Group in respect of consistency of the applied methodology for reserves estimate with previous year.</p> <p>We performed the test of details and for the significant changes in reserve volumes we tested whether the appropriate methodology was applied, the assumptions used are reasonable and adequately supported by underlying information provided by the management. We also performed analytical procedures on movements in hydrocarbon reserves during the year and reviewed that all significant changes were approved by the "Reserves and Resources Committee" and are in line with our expectations.</p> <p>We also assessed on the adequacy of the relevant disclosures in the separate and consolidated financial statements and if these are in line with the requirements of the IFRS as adopted by EU.</p>
<p>Impairments of the Company's and the Group's long lived assets</p> <p>Impairments of the Company's and the Group's long lived assets are disclosed in Note 6 Depreciation, amortization and impairment (net) and in respective notes disclosing the underlying assets in the separate and consolidated financial statements; a description of the accounting policy and key judgements and estimates are included in Note 2 Accounting policies and Note 3 Significant accounting judgements and estimates, respectively.</p> <p>Movements in oil and gas prices can have a significant effect on the carrying value of the Company's and the Group's long lived assets including upstream offshore and onshore, refining, retail and service related long lived assets as well as goodwill. A significant and rapid drop in prices also quickly impacts the Company's and the Group's operations and cash flows.</p>	<p>We performed understanding of the process and walked through the controls designed and operated by the Company and the Group relating to the assessment of the carrying value of respective long lived assets. We examined the methodology used by management to assess the carrying value of respective long lived assets, to determine its compliance with accounting standards and consistency of application. For the upstream, downstream and retail assets where the impairment indicators were not identified by the Company and the Group we assessed the management's competence in respect of impairment assessment by comparing the assumptions used in prior year to the achieved results in the current year.</p>



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Key Audit Matter	How we addressed Key Audit Matter
<p>Impairments of the Company's and the Group's long lived assets (continued)</p> <p>Due to complexity and judgement used in the assessment of impairment indicators and impairment models, impairment of Company's and Group's long lived assets is a key audit matter.</p>	<p>Furthermore, we evaluated the assumptions used in the current year assessment of impairment indicators and tested whether these assumptions are in line with the results achieved in the current year as well as current development in the industry and the Company's and the Group's expectations for the key inputs to the impairment models.</p> <p>In respect of performed impairment tests, we used external data in assessing and corroborating the assumptions used in the impairment analysis, the most significant being future market oil and gas prices and discount rates. We performed audit procedures on the mathematical integrity of the impairment models and sensitivity analysis, tested the appropriateness of discount rates used in the calculation with the assistance of the specialists and performed procedures to assess the completeness of the impairment charges.</p> <p>We also assessed on the adequacy of the relevant disclosures in the separate and consolidated financial statements and if these are in line with the requirements of the IFRS as adopted by EU.</p>
<p>Estimation of decommissioning provisions</p> <p>Provisions associated with decommissioning of the assets are disclosed in Note 30 Provisions to the separate and consolidated financial statements; a description of the accounting policy and key judgements and estimates are included in Note 2 Accounting policies and Note 3 Significant accounting judgements and estimates, respectively.</p> <p>Management reviews decommissioning provisions on an annual basis. This review incorporates the effects of any changes in local regulations, management's expected approach to decommissioning, cost estimates and discount rates. Decommission assets are recorded 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. In case there is no related asset, the change in provision estimate is charged to the separate and consolidated statement of profit or loss. The calculation of decommissioning provisions requires significant management judgement because of the inherent complexity in estimating future costs and is therefore considered as a key audit matter.</p>	<p>Audit procedures involved understanding of the mandatory or constructive obligations with respect to the decommissioning of each asset based on the contractual arrangements and relevant local regulation to validate the appropriateness of the cost estimate. We obtained calculation of decommissioning provision from the Company and the Group and tested that all of the required fields are included in the calculation, tested the appropriateness of discount rates used in the calculation, tested actual expenses that occurred during the current accounting period, inspected that decommissioning provision for the similar types of assets is in line with the expenses occurred in the current accounting period and assessed that the last year of production is aligned with the evaluation of reserves. As a part of our testing, we considered the competence and objectivity of the Company's and the Group's experts who produced the cost estimates.</p> <p>We also assessed on the adequacy of the relevant disclosures in the separate and consolidated financial statements and if these are in line with the requirements of the IFRS as adopted by EU.</p>

Other information included in the Company's and the Group's Annual Report for year 2019

Management is responsible for the other information. Other information consists of the information included in the Company's and the Group's 2019 Annual Report which includes the Management report, Corporate Governance Statement and Report on payments to governments, other than the separate and consolidated financial statements and our auditor's report thereon. The Company's and the Group's 2019 Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the separate and consolidated financial statements does not cover the Other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the separate and consolidated financial statements, our responsibility is to read the other information when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the separate and consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of management and Audit Committee for the separate and consolidated financial statements

Management is responsible for the preparation and fair presentation of the separate and consolidated financial statements in accordance with IFRS as adopted by EU, and for such internal control as management determines is necessary to enable the preparation of the separate and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate and consolidated financial statements, management is responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company and the Group or to cease operations, or has no realistic alternative but to do so.

Audit Committee is responsible for overseeing the Company's and the Group's financial reporting process.

Auditor's responsibilities for the audit of the separate and consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the separate and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate and consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

Identify and assess the risks of material misstatement of the separate and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the separate and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Audit Committee, we determine those matters that were of most significance in the audit of the separate and consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



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Report on Other Legal and Regulatory Requirements

In compliance with Article 10(2) of Regulation (EU) No. 537/2014 of the European Parliament and the Council, we provide the following information in our independent auditor's report, which is required in addition to the requirements of ISAs:

Appointment of Auditor and Period of Engagement

We were initially appointed as the auditors of the Company by the General Meeting of Shareholders on 24 June 2014. Our appointment has been renewed annually by shareholder resolution, with the most recent reappointment on 12 June 2019, representing a total period of uninterrupted engagement appointment of 6 years.

Consistence with Additional Report to Audit Committee

We confirm that our audit opinion on the separate and consolidated financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 11 March 2020 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services

We declare that no prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided by us to the Company and its controlled undertakings within the European Union. In addition, there are no other non-audit services which were provided by us to the Company and its controlled undertakings and which have not been disclosed in the separate and consolidated financial statements.

Report on Regulatory requirements

The partner in charge of the audit resulting in this independent auditor's report is Berislav Horvat.

Berislav Horvat, President of the Management Board and certified auditor

Ernst & Young d.o.o.
Radnička cesta 50
10000 Zagreb
Republic of Croatia

11 March 2020

INA - INDUSTRIJA NAFTE, d.d.
INA Group Consolidated Statement of Profit or Loss
For the year ended 31 December 2019
(all amounts are presented in HRK millions)

		Year ended	Year ended
	Note	31 December 2019	31 December 2018
Revenue from contracts with customers	4	22,597	22,349
Capitalised value of own performance		466	416
Other operating income	5	234	529
Total operating income		23,297	23,294
Changes in inventories of finished products and work in progress		(160)	365
Cost of raw materials and consumables		(8,460)	(12,033)
Depreciation, amortisation and impairment (net)	6	(2,134)	(1,802)
Other material costs		(2,125)	(2,188)
Service costs		(626)	(569)
Staff costs	7	(1,970)	(1,927)
Cost of other goods sold		(7,114)	(3,605)
Impairment charges (net)	8	(109)	165
Provision for charges and risks (net)	9	126	(13)
Total operating expenses		(22,572)	(21,607)
Profit from operations		725	1,687
Finance income	10	104	54
Finance costs	10	(180)	(221)
Net loss from financial activities		(76)	(167)
Share of profit of joint ventures accounted for using the equity method		10	-
Profit before tax		659	1,520
Income tax expense	11	(170)	(343)
Profit for the year		489	1,177
Attributable to:			
Owners of the Company		486	1,178
Non-controlling interests		3	(1)
		489	1,177
Earnings per share			
Basic and diluted earnings per share (HRK per share)	12	48.57	117.75

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

INA - INDUSTRIJA NAFTE, d.d.

INA Group Consolidated Statement of Other Comprehensive Income

For the year ended 31 December 2019

(all amounts are presented in HRK millions)

	<u>Note</u>	<u>Year ended 31 December 2019</u>	<u>Year ended 31 December 2018</u>
Profit for the year		489	1,177
Other comprehensive income, net of income tax:			
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Remeasurement of defined benefit obligation	34	12	(1)
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translating foreign operations	34	34	29
Gain/(loss) on non-current financial assets	33	106	(154)
Other comprehensive gain/(loss), net of income tax		152	(126)
Total comprehensive income for the year		641	1,051
Attributable to:			
Owners of the Company		638	1,052
Non-controlling interests		3	(1)

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

INA - INDUSTRIJA NAFTE, d.d.
INA, d.d. Separate Statement of Profit or Loss
For the year ended 31 December 2019
(all amounts are presented in HRK millions)

		Year ended	Year ended
	Note	31 December 2019	31 December 2018
Revenue from contracts with customers	4	21,096	21,070
Capitalised value of own performance		14	14
Other operating income	5	320	335
Total operating income		21,430	21,419
Changes in inventories of finished products and work in progress		(179)	364
Cost of raw materials and consumables		(8,348)	(11,819)
Depreciation, amortisation and impairment (net)	6	(1,825)	(1,688)
Other material costs		(1,927)	(2,162)
Service costs		(859)	(787)
Staff costs	7	(918)	(950)
Cost of other goods sold		(6,577)	(3,169)
Impairment charges (net)	8	(79)	162
Provision for charges and risks (net)	9	56	(17)
Total operating expenses		(20,656)	(20,066)
Profit from operations		774	1,353
Finance income	10	173	505
Finance costs	10	(155)	(201)
Net gain from financial activities		18	304
Share of profit of joint ventures accounted for using the equity method		10	-
Profit before tax		802	1,657
Income tax expense	11	(146)	(323)
Profit for the year		656	1,334

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

INA - INDUSTRIJA NAFTE, d.d.
 INA, d.d. Separate Statement of Other Comprehensive Income
 For the year ended 31 December 2019
 (all amounts are presented in HRK millions)

	<u>Note</u>	<u>Year ended</u> <u>31 December 2019</u>	<u>Year ended</u> <u>31 December 2018</u>
Profit for the year		656	1,334
Other comprehensive income, net of income tax:			
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Remeasurement of defined benefit obligation	34	12	(1)
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translating foreign operations	34	18	47
Gain/(loss) on non-current financial assets	33	106	(154)
Other comprehensive gain/(loss), net of income tax		136	(108)
Total comprehensive income for the year		792	1,226

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

INA - INDUSTRIJA NAFTE, d.d.
INA Group Consolidated Statement of Financial Position
At 31 December 2019
(all amounts are presented in HRK millions)

ASSETS	Note	31 December 2019	31 December 2018
Non-current assets			
Intangible assets	13	635	644
Property, plant and equipment	14	12,567	12,284
Right-of-use asset	28	342	-
Investments in associates and joint venture	16	160	150
Other investments	17	17	16
Long-term receivables	18	898	732
Deferred tax assets	11	1,035	1,199
Marketable securities		39	-
Non-current financial assets	19	607	479
Total non – current assets		16,300	15,504
Current assets			
Inventories	20	2,299	2,645
Trade receivables (net)	21,37	2,026	1,837
Other receivables	22	143	121
Corporate income tax receivables		16	8
Other current assets	23	136	174
Marketable securities		-	27
Cash and cash equivalents	24	606	422
		5,226	5,234
Held-for-sale assets		6	4
Total current assets		5,232	5,238
TOTAL ASSETS		21,532	20,742

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

At 31 December 2019

(all amounts are presented in HRK millions)

EQUITY AND LIABILITIES	Note	31 December 2019	31 December 2018
Capital and reserves			
Share capital	32	9,000	9,000
Legal reserves		166	99
Fair value reserves	33	241	135
Other reserves	34	1,590	1,544
Retained earnings	35	207	1,036
Equity attributable to owners of the Company		11,204	11,814
Non-controlling interest	36	12	9
TOTAL EQUITY		11,216	11,823
Non – current liabilities			
Long-term loans	27	-	4
Long-term lease liabilities	28	276	-
Other non-current liabilities	29	40	45
Employee benefit obligation	31	70	77
Provisions	30	3,716	3,462
Deferred tax liabilities	11	15	14
Total non-current liabilities		4,117	3,602
Current liabilities			
Bank loans	25,27	3,160	2,087
Current portion of long-term lease liabilities	28	68	-
Trade payables	26,37	1,511	1,720
Taxes and contributions	26	650	612
Other current liabilities	26	624	590
Employee benefit obligation	31	7	5
Provisions	30	179	303
Total current liabilities		6,199	5,317
Total liabilities		10,316	8,919
TOTAL EQUITY AND LIABILITIES		21,532	20,742

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

INA - INDUSTRIJA NAFTE, d.d.
INA, d.d. Separate Statement of Financial Position
At 31 December 2019
(all amounts are presented in HRK millions)

ASSETS	Note	31 December 2019	31 December 2018
Non-current assets			
Intangible assets	13	420	431
Property, plant and equipment	14	10,960	10,586
Right-of-use asset	28	529	-
Investment in subsidiaries	15	2,089	1,960
Investments in associates and joint venture	16	160	150
Other investments	17	745	752
Long-term receivables	18	902	743
Deferred tax assets	11	929	1,089
Marketable securities		39	-
Non-current financial assets	19	607	479
Total non-current assets		17,380	16,190
Current assets			
Inventories	20	2,025	2,351
Intercompany receivables	37	298	256
Trade receivables (net)	21,37	1,663	1,490
Other receivables	22	86	73
Other current assets	23	132	165
Marketable securities		-	27
Cash and cash equivalents	24	502	335
Total current assets		4,706	4,697
TOTAL ASSETS		22,086	20,887

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

INA - INDUSTRIJA NAFTE, d.d.

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

At 31 December 2019

(all amounts are presented in HRK millions)

EQUITY AND LIABILITIES	Note	31 December 2019	31 December 2018
Capital and reserves			
Share capital	32	9,000	9,000
Legal reserves		166	99
Fair value reserves	33	241	135
Other reserves	34	1,214	1,184
Retained earnings	35	1,273	1,934
TOTAL EQUITY		11,894	12,352
Non-current liabilities			
Long-term lease liabilities	28	441	-
Other non-current liabilities	29	39	44
Employee benefit obligation	31	19	33
Provisions	30	3,874	3,599
Total non-current liabilities		4,373	3,676
Current liabilities			
Bank loans	25,27	2,935	1,892
Current portion of long-term lease liabilities	28	90	-
Intercompany payables	37	645	584
Trade payables	26,37	1,089	1,242
Taxes and contributions	26	554	514
Other current liabilities	26	387	395
Employee benefit obligation	31	3	3
Provisions	30	116	229
Total current liabilities		5,819	4,859
Total liabilities		10,192	8,535
TOTAL EQUITY AND LIABILITIES		22,086	20,887

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

INA - INDUSTRIJA NAFTE, d.d.
INA Group Consolidated Statement of Changes in Equity
For the year ended 31 December 2019
(all amounts are presented in HRK millions)

	Share capital	Legal reserves	Fair value reserves	Other reserves	Retained earnings	Attributable to equity holders of the parent	Non controlling interest	Total
Balance at 31 December 2017	9,000	28	289	1,516	827	11,660	(134)	11,526
Effect of adoption of IFRS 9 <i>Financial instruments</i>	-	-	-	-	58	58	-	58
Balance at 1 January 2018	9,000	28	289	1,516	885	11,718	(134)	11,584
Transfer to legal reserves from retained earnings	-	71	-	-	(71)	-	-	-
Dividend paid	-	-	-	-	(812)	(812)	-	(812)
Acquisition of non-controlling interest	-	-	-	-	(144)	(144)	144	-
Subtotal	9,000	99	289	1,516	(142)	10,762	10	10,772
Profit for the year	-	-	-	-	1,178	1,178	(1)	1,177
Other comprehensive (loss)/gain, net	-	-	(154)	28	-	(126)	-	(126)
Total comprehensive (loss)/income for the year	-	-	(154)	28	1,178	1,052	(1)	1,051
Balance at 31 December 2018	9,000	99	135	1,544	1,036	11,814	9	11,823
Transfer	-	-	-	-	2	2	-	2
Transfer to legal reserves from retained earnings	-	67	-	-	(67)	-	-	-
Dividend paid	-	-	-	-	(1,250)	(1,250)	-	(1,250)
Subtotal	9,000	166	135	1,544	(279)	10,566	9	10,575
Profit for the year	-	-	-	-	486	486	3	489
Other comprehensive gain, net	-	-	106	46	-	152	-	152
Total comprehensive income for the year	-	-	106	46	486	638	3	641
Balance at 31 December 2019	9,000	166	241	1,590	207	11,204	12	11,216

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

INA - INDUSTRIJA NAFTE, d.d.
INA, d.d. Separate Statement of Changes in Equity
For the year ended 31 December 2019
(all amounts are presented in HRK millions)

	Share capital	Legal reserves	Fair value reserves	Other reserves	Retained earnings	Total
Balance at 31 December 2017	9,000	28	289	1,138	1,426	11,881
Effect of adoption of IFRS 9 <i>Financial instruments</i>	-	-	-	-	57	57
Balance at 1 January 2018	9,000	28	289	1,138	1,483	11,938
Transfer to legal reserves from retained earnings	-	71	-	-	(71)	-
Dividend paid	-	-	-	-	(812)	(812)
Subtotal	9,000	99	289	1,138	600	11,126
Profit for the year	-	-	-	-	1,334	1,334
Other comprehensive (loss)/gain, net	-	-	(154)	46	-	(108)
Total comprehensive (loss)/income for the year	-	-	(154)	46	1,334	1,226
Balance at 31 December 2018	9,000	99	135	1,184	1,934	12,352
Transfer to legal reserves from retained earnings	-	67	-	-	(67)	-
Dividend paid	-	-	-	-	(1,250)	(1,250)
Subtotal	9,000	166	135	1,184	617	11,102
Profit for the year	-	-	-	-	656	656
Other comprehensive gain, net	-	-	106	30	-	136
Total comprehensive income for the year	-	-	106	30	656	792
Balance at 31 December 2019	9,000	166	241	1,214	1,273	11,894

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

INA - INDUSTRIJA NAFTE, d.d.
INA Group Consolidated Statement of Cash Flows
For the year ended 31 December 2019
(all amounts are presented in HRK millions)

<u>Note</u>	<u>Year ended 31 December 2019</u>	<u>Year ended 31 December 2018</u>
Profit for the year	489	1,177
Adjustments for:		
Depreciation, amortisation and impairment of property, plant and equipment and ROU asset (net)	2,134	1,802
Income tax expense recognised in profit and loss	170	343
Impairment charges (net)	109	(165)
(Gain)/loss on sale of property, plant and equipment	(11)	3
Gain on acquisition of subsidiary	-	(291)
Foreign exchange (gain)/ loss	(29)	45
Interest expense (net)	24	26
Share of profit of joint ventures accounted for using the equity method	10	-
Other finance expense recognised in profit	26	58
Decrease in provisions	(135)	(23)
Decommissioning interests and other provision	49	62
Net loss on derivative financial instruments	8	96
Other non-cash items	(2)	(2)
	2,842	3,131
Movements in working capital		
Decrease/(increase) in inventories	322	(725)
Increase in receivables and prepayments	(389)	(278)
Increase in trade and other payables	101	764
Cash generated from operations	2,876	2,892
Taxes paid	(41)	(61)
Net cash inflow from operating activities	2,835	2,831
Cash flows used in investing activities		
Capital expenditures, exploration and development costs	(2,442)	(1,842)
Payments for intangible assets	(143)	(125)
Proceeds from sale of non-current assets	20	9
Acquisition of subsidiary (net)	-	(147)
Investment in joint venture	-	(150)
Investment in securities	(12)	-
Dividends received from companies classified as non-current financial assets and from other companies	10	1
Interest received and other financial income	42	11
Loans and other investments (net)	9	1
Net cash used for investing activities	(2,516)	(2,242)

INA - INDUSTRIJA NAFTE, d.d.
 INA Group Consolidated Statement of Cash Flows (continued)
 For the year ended 31 December 2019
 (all amounts are presented in HRK millions)

<u>Note</u>	<u>Year ended 31 December 2019</u>	<u>Year ended 31 December 2018</u>
Cash flows from financing activities		
Change in long-term borrowings	208	(122)
Change in short-term borrowings (net)	823	376
Payment of principal portion of lease liabilities (net)	197	-
Dividends paid	(1,250)	(812)
Interest paid on long-term loans	(1)	(5)
Interest paid on short-term loans and other interest charges	(123)	(56)
Net cash used in financing activities	(146)	(619)
Net increase/(decrease) in cash and cash equivalents		
	173	(30)
At 1 January	422	428
Effect of foreign exchange rate changes	6	24
At 31 December	601	422
	24	
Overdrafts	5	-
Cash and cash equivalents in statement of financial position	606	422

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

INA - INDUSTRIJA NAFTE, d.d.
INA, d.d. Separate Statement of Cash Flows (continued)
For the year ended 31 December 2019
(all amounts are presented in HRK millions)

	Year ended 31 December 2019	Year ended 31 December 2018
Profit for the year	656	1,334
Adjustments for:		
Depreciation, amortisation and impairment of property, plant and equipment and ROU asset (net)	1,825	1,688
Income tax expense recognised in profit and loss	146	323
Impairment charges (net)	79	(162)
Gain on sale of property plant and equipment	(8)	(7)
Income from capital increase of subsidiary	(112)	-
Foreign exchange loss	17	49
Interest expense (net)	1	6
Income from reversal of impaired loans	-	(222)
Income from reversal of impaired investment in subsidiaries	-	(111)
Share of profit of joint ventures accounted for using the equity method	(10)	-
Other finance gain recognised in profit and loss	(84)	(85)
Decrease in provisions	(64)	(20)
Decommissioning interests and other provision	50	56
Net loss on derivative financial instruments and hedge transactions	8	96
Other non-cash items	-	4
Movements in working capital	2,504	2,949
Decrease/(increase) in inventories	230	(645)
Increase in receivables and prepayments	(321)	(320)
Increase in trade and other payables	240	1,022
Cash generated from operations	2,653	3,006
Taxes paid	(12)	(35)
Net cash inflow from operating activities	2,641	2,971
Cash flows used in investing activities		
Capital expenditures, exploration and development costs	(1,822)	(1,726)
Payment for intangible assets	(128)	(120)
Proceeds from sale of non-current assets	12	8
Acquisition of subsidiary	(10)	(265)
Investment in joint venture	-	(150)
Investment in securities	(12)	-
Dividends received from companies classified as non-current financial assets and from other companies	10	1
Payments received from subsidiaries	1	1
Interest received and other financial income	29	51
Loans and other investments (net)	(193)	(250)
Net cash used in investing activities	(2,113)	(2,450)

INA - INDUSTRIJA NAFTE, d.d.
 INA, d.d. Separate Statement of Cash Flows (continued)
 For the year ended 31 December 2019
(all amounts are presented in HRK millions)

	<u>Note</u>	<u>Year ended 31 December 2019</u>	<u>Year ended 31 December 2018</u>
Cash flows from financing activities			
Change in long-term borrowings		208	(122)
Change in short-term borrowings (net)		885	416
Payment of principal portion of lease liabilities		(83)	-
Dividends paid		(1,250)	(812)
Interest paid on long-term loans		(1)	(5)
Interest paid on short-term loans and other interest charges		(123)	(50)
Net cash used in financing activities		<u>(364)</u>	<u>(573)</u>
Net increase/(decrease) in cash and cash equivalents			
At 1 January		335	364
Effect of foreign exchange rate changes		3	23
At 31 December	24	<u>502</u>	<u>335</u>

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

1. GENERAL

History and incorporation

INA-Industrija nafte, d.d. 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. 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 of the Management Board.

The ownership structure* of the INA Group as of 31 December 2019 and 31 December 2018:

	31 December 2019		31 December 2018	
	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.

Principal activities

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

- (i) exploration and production of oil and gas deposits, primarily onshore and offshore within Croatia and other than that INA, d.d has concessions held 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 511 service stations in operation as of 31 December 2019 (of which 387 in Croatia and 124 outside Croatia);
- (v) trading in petroleum products through a network of foreign subsidiaries and representative offices, principally in Sarajevo, Ljubljana and Podgorica; and
- (vi) service activities incidental to onshore and offshore oil extraction through its drilling and oilfield services subsidiary Crosco d.o.o.

1. GENERAL (CONTINUED)

The Group has dominant positions in Croatia over oil and gas exploration and production, oil refining, and the sale 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.

Headquarter of the Group is located in Zagreb, Avenija V. Holjevca 10, Croatia. As at 31 December 2019, there were 10,575 employees at the Group (10,842 as at 31 December 2018). As at 31 December 2019, there were 3,677 employees at INA, d.d. (4,138 as at 31 December 2018).

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 that generally act as distributors of INA Group products and as representative offices within their local markets.

Supervisory Board, Management Board and Council of Directors

Supervisory Board

Supervisory Board since 14 June 2017 until 18 December 2020

Damir Vandelić	President of the Supervisory Board
József Molnár	Vice President of the Supervisory Board
Luka Burilović	Member of the Supervisory Board
Szabolcs I. Ferencz	Member of the Supervisory Board
Ferenc Horváth	Member of the Supervisory Board
Damir Mikuljan	Member of the Supervisory Board
József Simola	Member of the Supervisory Board
László Uzsoki	Member of the Supervisory Board
Jasna Pipunić	Representative of employees in the Supervisory Board

Management Board

Management Board since 1 July 2018 until 30 June 2021

Sándor Fasimon	President of the Management Board
Niko Dalić	Member of the Management Board
Ivan Krešić	Member of the Management Board
Davor Mayer	Member of the Management Board
Zsolt Pethő	Member of the Management Board
Dr Ákos Székely	Member of the Management Board

Council of Directors

Members of the Council of Directors appointed by the decision of the Management Board:

Vlatko Dujanić	Operating Director of Consumer Services and Retail
Gábor Horváth	Chief Financial Officer
Stjepan Nikolić	Operating Director of Refining and Marketing
Goran Pavlović	Operating Director of Industrial Services
Tvrtko Perković	Operating Director of Exploration and Production

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, 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 the 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 European Union (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 consider those characteristics 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.

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 (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee and adopted by the EU are effective for the current period:

2. ACCOUNTING POLICIES (CONTINUED)

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

Standards and Interpretations effective in the current period (continued)

- **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, adopted in EU on 31 October 2017 (effective date for annual periods beginning on or after 1 January 2019). IFRS 16 replaces the following standards and interpretations: IAS 17 *Leases*, IFRIC 4 *Determining whether an Agreement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of Lease*. The standard affects primarily the accounting for the Companies and the Group operating leases.

The Company and Group have applied IFRS 16 at 1 January 2019 for the first time, using the modified retrospective approach.

The Company and the Group applied the standard only to contracts that were previously identified as operating leases applying IAS 17 and IFRIC 4 at the date of initial application. Therefore, lease liabilities are measured at the present value of the remaining lease payments, discounted with incremental borrowings as of 1 January 2019, i.e. carrying amount of lease liabilities as if the standard was always applied. The Group has applied the available practical expedients from standards:

- reliance on previous assessments on whether contract is, or contains a lease;
- used hindsight in determining the lease term where the contract contained options to extend or terminate the lease;
- practical exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (short-term leases), and
- practical exemption of lease contracts for which the underlying asset is of low value (low-value assets).

The Company and the Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognised under IAS 17). The requirements of IFRS 16 were applied to these leases from 1 January 2019.

As a result of adoption of IFRS 16 *Leases*, effective from 1 January 2019, the impact of transition is as follows:

- Right-of -use assets of HRK 156 million at INA Group and HRK 384 million at INA, d.d.;
- Lease liabilities of HRK 156 million at INA Group and HRK 384 million at INA, d.d. were recognised and presented separately in the statement of financial position.

When measuring lease liabilities for leases that were classified as operating lease, the lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018, as follows:

2. ACCOUNTING POLICIES (CONTINUED)

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

Standards and Interpretations effective in the current period (continued)

	<u>INA Group</u>	<u>INA, d.d.</u>
Assets		
Operating lease commitments as at 31 December 2018	124	385
Weighted average incremental borrowing rate as at 1 January 2019	1%	1%
Discounted operating lease commitments as at 1 January 2019	121	369
Less:		
Commitments relating to short-term leases	(44)	(11)
Commitments relating to leases of low-value assets	(22)	(9)
Add:		
Commitments relating to leases previously classified as finance leases	4	-
Lease payments relating to renewal periods not included in operating lease commitments as at 31 December 2018	97	35
Lease liabilities as at 1 January 2019	<u>156</u>	<u>384</u>

- **IFRIC Interpretation 23: *Uncertainty over Income Tax Treatments***, issued on 7 June 2017 (effective date for annual reporting periods beginning on or after 1 January 2019).
- **Amendments to IFRS 9: *Prepayment features with negative compensation***, issued on 12 October 2017 (effective date for annual periods beginning on or after 1 January 2019).
- **Amendments to IAS 28: *Long-term interests in associates and joint ventures***, issued on 12 October 2017 (effective date for annual periods beginning on or after 1 January 2019).
- **Annual Improvements to IFRS Standards 2015-2017 Cycle**, issued on 12 December 2017 (effective date for annual periods beginning on or after 1 January 2019).
- **Annual Improvements Amendments to IAS 19: *Plan Amendment, Curtailment or Settlement***, issued on 7 February 2018 (effective date for annual periods beginning on or after 1 January 2019).

The adoption of these Standards and Interpretations had no significant impact on the financial statements of the Company and the Group, except of IFRS 16 *Lease* that have a material impact of the group's financial statements as presented above.

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

- **Amendments to References to the Conceptual Framework in IFRS Standards**, issued on 29 March 2018 (effective date for annual periods beginning on or after 1 January 2020).
- **Amendments to IAS 1 and IAS 8: Definition of Material**, issued on 31 October 2018 (effective date for annual periods beginning on or after 1 January 2020).
- **Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)**, issued on 26 September 2019 (effective date for annual periods beginning on or after 1 January 2020).

The Company and the Group does not anticipate that the adoption of these Standards and Interpretations will have a significant 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. The endorsement might be expected in 2020:

- **IFRS 17: Insurance contracts**, issued on 18 May 2017 to achieve the goal of a consistent, principle-based accounting for insurance contracts (effective date for annual periods beginning on or after 1 January 2021).
- **Amendment to IFRS 3: Business Combinations**, issued on 22 October 2018 (effective date for annual periods beginning on or after 1 January 2020).
- **Amendments to IAS 1 Presentation of Financial Statements, Classification of Liabilities as Current or Non-current**, issued on 23 January 2020.

The Company and the Group does not anticipate that the adoption of these Standards and Interpretations will have a significant impact on the financial statements of the Company and the Group.

2. ACCOUNTING POLICIES (CONTINUED)

Investments in subsidiaries in Parent Company financial statement (INA, d.d.)

In the Company's financial statements, investments in subsidiaries are accounted for at cost and reduced for 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 Group is exposed, or has rights, to variable returns from its involvement with the investee and has ability to affect those returns through its power over the investee. The Group controls an investee if, and only if, the Group:

- 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.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements 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, 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.

A change in the ownership interest of a subsidiary, without a loss of a control, is accounted for as equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

2. ACCOUNTING POLICIES (CONTINUED)

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

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. 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 IFRS 9 *Financial Instruments* or, when applicable, the cost on initial recognition of an investment in an associate.

Legal merger

In a case of legal merger of the companies in the Group, 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

Business combinations are accounted for using the acquisition method.

The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 *Financial Instruments*, is measured at fair value with the changes in fair value recognised in the statement of profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

2. ACCOUNTING POLICIES (CONTINUED)

Business combination (continued)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

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.

Acquisition of entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that ultimately controls the Group are accounted for using pooling of interest accounting at the date of acquisition. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the consolidated financial statements of the parent group. The components of equity of the acquired entities are added to the same components within the Group equity except for issued capital. Consolidated financial statements reflect the results of combining entities from the date of acquisition.

Business combinations under common control are accounted for based on carrying values, with any effects directly recognised in equity.

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 and legal entity 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 considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

An investment in an associate or a joint venture is accounted for using the equity method on separate and consolidated financial statements from the date on which the investee becomes an associate or a joint venture. The Company and 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.

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.

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 the 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 the 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 method. 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 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 commercially viable, such costs are transferred to oil and gas properties. Management Board reviews the status of such prospects regularly.

Fields under development

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

Depreciation

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

Commercial reserves

Commercial reserves are 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. The Group performed reserves determination in accordance with SPE PRMS (Society of Petroleum Engineers Petroleum Resources Management System) guidelines.

2. ACCOUNTING POLICIES (CONTINUED)

Intangible assets

Intangible assets acquired separately are capitalized at cost and intangible assets acquired 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 are tested for impairment annually either individually or at the cash generating unit level. Research costs are expensed as incurred. Development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured.

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

Property, plant and equipment

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

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

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

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

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
Service stations	30	years
Telecommunication and office equipment	2 - 10	years

The residual values, useful lives and depreciation methods are reviewed at least annually.

2. ACCOUNTING POLICIES (CONTINUED)

Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

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

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

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

Leases

The Company and the Group assess contracts to evaluate whether a contract contains a lease or not. That is, lease is a contract (or part of a contract), that conveys the right to use an asset (the underlying asset), for specified period in exchange for consideration.

The Company and the Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets. There are two key aspects:

1. Right-of-use assets

The Company and the Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on straight-line basis over the shorter of the lease term and the estimated useful lives of the assets as presented in *Property, plant and equipment*.

2. ACCOUNTING POLICIES (CONTINUED)

Leases (continued)

If ownership of the leased asset transfers to the Company and the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. Right of use assets are presented as separate line in the statement of financial position.

The right-of-use assets are also subject to impairment. Refer to the accounting policies depreciation shall be calculated as for Property, plant and equipment in accordance with IAS 16.

2. Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs. In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset. Lease liabilities are presented as separated lines in the statement of financial position.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less). A lease that contains a purchase option cannot be classified as a short-term lease. The Company and the Group apply recognition exemption to office equipment lease that are considered to be of low value. Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term.

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in other operating income in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

2. ACCOUNTING POLICIES (CONTINUED)

Receivables from customers

Trade receivables are carried at amortised cost less impairment. 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 adoption of IFRS 9 has changed the Company's and the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. The Group recognises an allowance for ECL for all debt instruments not held at fair value through profit or loss and contract assets.

Expected credit loss model is used for calculation of impairment of receivables. The model incorporates forward-looking factors into assessment of impairment. INA Group applies the simplified approach for receivables. This means that allowance for the full lifetime expected credit loss is accounted for upon recognition of the financial instrument.

According to the impairment policy, following events are considered as objective evidence on impairment:

- legal claim against the customer;
- default of the issuer;
- total or partial release of claim;
- claim is under external connection;
- >180 days overdue;
- disappearance of an active market.

The calculation of loss rate:

- in case of performing third party items under simplified approach, loss rates are used to calculate the expected credit loss on these items at initial recognition;
- the loss rate is the arithmetic average of the yearly historical loss rates of the last three years. Upon calculating the historical loss rate for a given year, only receivables originated in given year are considered in the calculation;
- this average of yearly historical loss rates is adjusted by the forward-looking macroeconomic element.

Receivables that are a subject of a court process (court dispute, bankruptcy, liquidation) are written off from accounting records.

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 96.53% of future average sales price, which approximates the net recoverable amount.

2. ACCOUNTING POLICIES (CONTINUED)

Inventories (continued)

- 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 2019 was 0.88% and for 2018, it was 1.19%.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

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 kuna (HRK), which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In the financial statements of the individual Group entities, transactions in currencies other than the entity's functional currency 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.

2. ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (continued)

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 other reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

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

Business activities of INA, d.d. 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 US dollar (USD) except on gas field Isabella where the functional currency is euro (EUR). 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.

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, 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 other comprehensive income.

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.

2. ACCOUNTING POLICIES (CONTINUED)

Retirement Benefit and Jubilee Costs (continued)

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 when the entity can no longer withdraw the offer of the termination benefit or when the entity recognises any related restructuring costs.

Taxation

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

Current tax

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

Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and are accounted for using the statement of financial position liability method.

Deferred tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting year and are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Deferred tax assets are recognised where it is more likely than not the assets will be realised in the future. At each date, the Company re-assessed unrecognised deferred tax assets and the carrying amount of deferred tax assets. No deferred tax liability is provided in respect of any future remittance of earnings of foreign subsidiaries where the Group is able to control the remittance of earnings and it is probable that such earnings will not be remitted in the foreseeable future, or where no liability would arise on the remittance.

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 Company and the Group intend to settle its current tax assets and liabilities.

2. ACCOUNTING POLICIES (CONTINUED)

Taxation (continued)

Deferred tax (continued)

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

Current and deferred tax for the period

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized 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 accounting for the business combination.

Financial assets

Initial measurement of financial instruments

Financial assets are divided into two main categories, those measured at amortized cost and those measured at fair value. Fair value measurement is further divided into fair value through profit and loss (FVTPL) and fair value through other comprehensive income (FVTOCI).

Subsequent measurement of financial assets

Financial assets are classified in four categories:

Financial assets at amortized cost (debt instruments)

A debt instrument that meets the following two conditions is measured at amortized cost:

- Business model test: The financial asset is held to collect the contractual cash flows (rather than to sell the instrument prior to its contractual maturity to realize its fair value changes); and
- Cash flow characteristics test: The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at fair value through other comprehensive income (debt instruments)

A debt instrument that meets the following two conditions must be measured at FVTOCI unless the asset is designated at FVTPL under the fair value option:

- Business model test: The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
- Cash flow characteristics test: The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Company's and the Group's debt instruments at FVTOCI includes only investments in long-term quoted debt marketable securities with very low credit risk.

Financial assets at fair value through profit or loss (debt instruments)

All other debt instruments must be measured at FVTPL (including derivatives).

2. ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

Financial assets designated at fair value through other comprehensive income (equity instruments)

Upon initial recognition, the Company and Group can elect to classify irrevocably its equity investments as equity instruments designated at FVTOCI when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

The Company and the Group elected to classify its listed equity investments under this category (see note 40).

Derecognition of financial assets

The basic premise for the derecognition model is to determine whether the asset under consideration for derecognition is:

- an asset in its entirety;
- specifically identified cash flows from an asset (or a group of similar financial assets);
- fully proportionate (pro rata) share of the cash flows from an asset (or a group of similar financial assets); or
- fully proportionate (pro rata) share of specifically identified cash flows from a financial asset (or a group of similar financial assets).

Once the asset under consideration for derecognition has been determined, an assessment is made as to whether the asset has been transferred, and if so, whether the transfer of that asset is subsequently eligible for derecognition.

Impairment

The impairment model is based on the premise of providing for expected losses.

General approach

With the exception of purchased or originated credit impaired financial assets, expected credit losses are measured through a loss allowance at an amount equal to:

- the 12-month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date);
- or full lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument).

A loss allowance for full lifetime expected credit losses is required for a financial instrument if the credit risk of that financial instrument has increased significantly since initial recognition, as well as to contract assets or trade receivables that do not constitute a financing transaction in accordance with IFRS 15.

Simplified approach

The Company and the Group apply the simplified approach for the following financial assets: trade receivables, IFRS 15 contract assets and lease receivables. For all other financial instruments, general approach is applied.

Independently of the two approaches mentioned above, the impairment method stayed the same under the new standard in case of financial assets where there is an objective evidence on impairment. These are required to be assessed on a case-by-case basis. The maximum amount of impairment accounted for by the Company and Group is 100% of unsecured part of the financial asset.

2. ACCOUNTING POLICIES (CONTINUED)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Company's and the Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts and derivative financial instruments.

Subsequent measurement

The measurement of financial liabilities depends on their classification.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Company and the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. The Company and the Group do not have financial liabilities at fair value through profit or loss.

Loans and borrowings

This is the category most relevant to the Company and the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs.

Derecognition of financial liabilities

A financial liability is removed from the statement of financial position when, and only when, it is extinguished, that is, when the obligation specified in the contract is either discharged or cancelled or expires.

Where there has been an exchange between an existing borrower and lender of debt instruments with substantially different terms, or there has been a substantial modification of the terms of an existing financial liability, this transaction is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. A gain or loss from extinguishment of the original financial liability is recognized in profit or loss.

The Company and the Group do not have any financial instrument whose classification has changed as a result of applying IFRS 9 and does not have any instrument that the Company and the Group designated upon initial recognition as at fair value through profit or loss in order to reduce a measurement or recognition inconsistency.

Impairment is only accounted for trade receivables. No impairment is recognised on the remaining financial instruments based on materiality, history and expectations.

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 Company and the Group have 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 discount factor, which is calculated as CPI (Consumer Price Index), and real interest 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. Any change to the present value of the estimated costs is reflected as an adjustment of the provisions and the decommission assets.

Provision for emission quotas

Liability for emission is not recognized until the amount of actual emission reaches the amount of quota allocated free of charge. This approach is due to the fact that allocated emission allowances are not recorded as intangibles, their asset value is zero. When actual emission exceeds the amount of emission rights granted, provision should be made on the actual market price for the exceeding emission allowances. It also means that it is not possible to record a provision earlier than the date when emissions reach the amount of allowances granted, nor is it possible to spread the expected shortfall through the calendar years.

Settlement with Government is carried out by offsetting the purchased rights with the provision recorded for the exceeding emissions. Penalty will be accounted for if the shortfall is not covered by purchased quotas.

Provision should be calculated for each installation separately and recorded on emitting segment.

Revenue from Contracts with Customers

Under IFRS 15 the Company and the Group recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Company and Group expect to be entitled in exchange for those goods or services. This core principle is delivered in a five-step model framework.

The Company and the Group consider whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated.

2. ACCOUNTING POLICIES (CONTINUED)

Revenue from Contracts with Customers (continued)

In determining the transaction price, the Company and the Group consider the effects of variable consideration, the existence of significant financing components, noncash consideration and consideration payable to the customer.

Presentation and disclosure

Contracts with customers are presented in statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the performance of the Company and the Group and the customer's payment.

A contract liability is presented in the statement of financial position where a customer has paid an amount of consideration prior to the performing by transferring the related good or service to the customer.

Where the Company and the Group have performed the obligation by transferring a good or service to the customer and the customer has not yet paid the related consideration, a contract asset or a receivable is presented in the statement of financial position, depending on the nature of right to consideration. A contract asset is recognised when the Company's and the Group's right to consideration is conditional on something other than the passage of time, for example future performance of the Company and the Group. A receivable is recognised when the Company's and the Group's right to consideration is unconditional except for the passage of time.

Company's and Group's sales contracts generally comprise of only one performance obligation. As such, the Company and the Group do not disclose information about the allocation of the transaction price.

Excise duties

Excise duty is part of amounts collected on behalf of third parties.

Construction – maintenance and service contracts

For each performance obligation satisfied over time, the Company and the Group recognizes revenue over time by measuring the progress towards complete satisfaction of that performance obligation. Management elected to use input method of calculating progress (costs incurred to date) in revenue recognition from construction contracts.

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, estimated decommissioning costs, environmental provision and provision for legal cases as well as carrying value of investments and given loans to subsidiaries and contract balances. 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 and estimates relate to the following areas:

Consequences of certain legal actions

The Group is 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 30).

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 expected oil and gas prices, production volumes, 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 325 million in 2019 at INA Group, while INA, d.d. HRK 187 million (2018: HRK 32 million).

Carrying value of goodwill

In 2019 and 2018 there was no goodwill impairment (see note 13). The carrying amount of goodwill amounted to HRK 152 million as of 31 December 2019 and 31 December 2018 (see note 13).

Carrying value of intangible exploration and appraisal assets

The carrying amount of intangible exploration and appraisal assets amounted to HRK 245 million as of 31 December 2019 and HRK 229 million as of 31 December 2018 (see note 13). In 2019 no impairment charges and in 2018 the impairment of intangible exploration and appraisal assets amounted of HRK 71 million. (see note 13).

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 3,224 million as of 31 December 2019 and HRK 3,491 million as of 31 December 2018 (see note 14). In 2019 the Group recognized impairment for HRK 289 million (2018: HRK 32 million) (see note 14).

Key assumptions used

Refining and Marketing

INA's management conducted an analysis of potential impairment triggers – whether the key value drivers of the business (market demand, crack spreads, oil price) turned considerably to the worse. The analysis concluded that for Refining and Marketing there is no impairment trigger, therefore no impairment test was performed.

Exploration and Production

Similarly to previous year Brent levels remained in the range around USD 60/bbl, which is a comfortable level for INA main oil fields. Still, the decrease in gas price in 2019, which is expected to prolong created the indicator for impairment testing of INA's gas fields. No indicator was identified in regards of the reserves and volumes. In line with the performed impairment test impairment on the North Adriatic Concession Area, Aiza Laura and Zebanec fields was posted.

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. INA, d.d. temporarily suspended all business activities in Syria on 26 February 2012 by announcing Force Majeure to comply with the relevant sanctions of the US and the EU.

Current situation

Main production activities have been taken over by Hayan Petroleum Company's local workforce, which INA, d.d. considers illegal.

Company has assessed situation in Syria and identified no material change compared to previous years. EU sanctions remain in place and the political situation has not changed significantly either for the better or worse from INA's investment perspective. INA, d.d. expects similar costs and benefits in case of return to operation of Syrian fields. Therefore, no triggering event for asset impairment was identified in 2019.

In line with the Petroleum Resources Management System (PRMS) rules, and the fact that Syrian assets are under Force Majeure and INA, d.d. has no control for a period of almost 7 years, the reserves are shifted from 2P to 2C category in 2017. No changes in 2019.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Critical judgements and estimates in applying accounting policies (continued)

Political developments in Egypt

Concerning the INA, d.d. operations in Egypt the key uncertainty of business is the timing of receivables collection. At 31 December 2019 gross book value of Egyptian General Petroleum Corporation receivables amounted to HRK 184 million out of which HRK 48 million was value adjusted. During 2019, INA, d.d. impaired HRK 47 million of receivables and managed to collect previously value adjusted receivables in the amount of HRK 68 million. Improvement in collection of receivables is due to better market environment in Egypt.

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. The provision estimate requires significant management judgement and is reviewed on annual basis.

Management makes estimates of future expenditure in connection with decommissioning obligations using prices by reference to prior similar activities, as well as other assumptions like the estimated effects of any changes in local regulations, management's expected approach to decommissioning, cost estimates and discount rates. 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 3,301 million as at 31 December 2019 (31 December 2018: HRK 3,029 million) for INA, d.d. (see note 30).

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) because 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 2019 INA Group recognized environmental provision in the amount of HRK 361 million (2018: HRK 412 million) (see note 30), 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 service stations. It does not cover the cost of remediation in lack of detailed National regulations.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Critical judgements and estimates in applying accounting policies (continued)

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

A deferred tax asset is recognized for unused tax losses to the extent that is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits, together with future tax planning savings. 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.

Management believes that deferred tax asset recognized is recoverable. At 31 December 2019 the carrying amount of deferred tax assets of the INA Group amounted to HRK 1,035 million (2018: HRK 1,199 million) and deferred tax liabilities amounted to HRK 15 million at 31 December 2019 (2018: HRK 14 million). At 31 December 2019 the carrying amount of deferred tax assets of INA, d.d. amounted to HRK 929 million, (31 December 2018: HRK 1,089 million respectively) (see note 11). If the Group was able to recognise all unrecognised deferred tax assets, profit and equity would have increased by HRK 28 million at 31 December 2019, (31 December 2018: HRK 31 million).

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 77 million as at 31 December 2019 (31 December 2018: HRK 82 million), and INA, d.d. amounted to HRK 22 million as at 31 December 2019 (31 December 2018: HRK 36 million) (see note 31).

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 2019 had no significant changes compared to the previous estimate.

Lease term duration estimates

The Company and the Group has applied judgement to determine the lease term for all lease contracts that include renewal or termination options. The assessment of whether the Company or Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and leased assets recognised.

Estimates of incremental borrowing rate for lease contracts

The Company and the Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The incremental borrowing rate is the rate of interest that the company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The incremental borrowing rate therefore reflects what the company 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Critical judgements and estimates in applying accounting policies (continued)

Estimates the incremental borrowing rate for lease contracts (continued)

The Group estimates the incremental borrowing rate using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating). INA, d.d and INA Group review the estimated borrowing rates at the end of each reporting period.

Hydrocarbon reserves

Exploration and development projects involve many uncertainties and business risks that may give rise to significant expenditures. Exploration and development projects of the Company and the 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.

The Company and the Group estimate and report hydrocarbon reserves in line with the principles contained in the SPE Petroleum Resources Management Reporting System (PRMS) framework. Estimation of hydrocarbon reserves is a significant area of judgement due to the technical uncertainty in assessing quantities and complex contractual arrangements dictating the Company's and the Group's share of reportable volumes.

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 affect the Company's and 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.

Carrying value of investments and given loans to subsidiaries (INA, d.d.)

The carrying amount of the investment in subsidiaries amounts to HRK 2,089 million as at 31 December 2019 and HRK 1,960 million as at 31 December 2018. Due to the significance exposure to subsidiaries (calculated as the sum of carrying value of investment and given loans, net) the existence of impairment indicators requires significant Management judgment in determining the appropriate approach for testing impairment.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Critical judgements and estimates in applying accounting policies (continued)

Carrying value of investments and given loans to subsidiaries (INA, d.d.)(continued)

The carrying amount of loans granted to subsidiaries amounts to HRK 768 million as at 31 December 2019 and HRK 755 million at 31 December 2018.

Contract balances

	INA Group		INA, d.d.	
	2019	2018	2019	2018
Trade receivables	2,019	1,837	1,663	1,490
Contract asset	7	2	-	-
Contract liabilities	99	28	38	-

Trade receivables are non-interest bearing and are generally on terms of 3 to 30 days. The acquisition of a subsidiary resulted in increase in trade receivables of HRK 29 million in 2018 (note 41). In 2019, HRK 1 million (2018: 1 HRK million) was recognised as impairment for expected credit losses on trade receivables.

Contract assets are initially recognised for revenue earned from construction services as receipt of consideration is conditional on successful completion of construction. Upon completion of construction services and acceptance by the customer, the amounts recognised as contract assets are reclassified to trade receivables.

Contract liabilities include short-term advances received for construction services in amount of HRK 99 million in 2019 as well as HRK 28 million in 2018. The remaining performance obligations are expected to be recognised in following year.

Contract assets and contract liabilities are not presented in separate line in statement of financial position because they are not considered to be significant for the Company and the Group. Contract assets are presented in line other current asset while contract liabilities are presented in line other current liabilities in statement of financial position.

Performance obligations

Revenue from the sale and transportation of crude oil, natural gas, petroleum products and other merchandise is recognised when the customer obtains control of the goods, which is normally when title passes to the customer and the customer takes the physical possession, based on the contractual terms of the agreements.

Sales agreements mainly represent one performance obligation and the Company and the Group principally satisfies its performance obligations at a point in time.

4. SEGMENT INFORMATION

The INA Group operates through three core business segments. The strategic business segments offer different products and services. Reporting segments, which in INA Group represent business operations, have been defined along value chain standard for the oil companies:

- Exploration and Production - exploration, production and selling of crude oil;
- Refining and Marketing - crude oil processing, wholesale of refinery products, selling of natural gas, selling of fuels and commercial goods in retail stations and logistics; and
- Corporate and other - in addition to the core segments above, the operations of INA Group 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 Exploration and Production to Refining and Marketing. Evaluation of inventories of domestic crude, finished and semi-finished products in Refining and Marketing is based on the transfer price from Exploration and Production to 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.

4. SEGMENT INFORMATION (CONTINUED)

The following table presents information on revenues and expenditures of INA Group operations for 2019:

2019	Exploration and Production	Refining and Marketing	Corporate and other	Intersegment transfers and consolidation adjustments	Total
Sales to external customers	389	21,473	735	-	22,597
Intersegment sales	3,356	57	1,404	(4,817)	-
Total revenue	3,745	21,530	2,139	(4,817)	22,597
Operating expenses, net of other operating income	(2,596)	(21,759)	(2,293)	4,776	(21,872)
Profit/(loss) from operations	1,149	(229)	(154)	(41)	725
Net finance loss					(76)
Share of net profit of joint ventures accounted for using the equity method					10
Profit before tax					659
Income tax expense					(170)
Profit for the year					489

The following table presents information on revenues and expenditures of INA Group operations for 2018:

2018	Exploration and Production	Refining and Marketing	Corporate and other	Intersegment transfers and consolidation adjustments	Total
Sales to external customers	358	21,375	616	-	22,349
Intersegment sales	3,829	45	1,213	(5,087)	-
Total revenue	4,187	21,420	1,829	(5,087)	22,349
Operating expenses, net of other operating income	(1,931)	(21,578)	(2,111)	4,958	(20,662)
Profit/(loss) from operations	2,256	(158)	(282)	(129)	1,687
Net finance loss					(167)
Profit before tax					1,520
Income tax expense					(343)
Profit for the year					1,177

4. SEGMENT INFORMATION (CONTINUED)

The following table presents information of financial position of INA Group operations for 2019:

31 December 2019	Exploration and Production	Refining and Marketing	Corporate and other	Intersegment transfers and consolidation adjustments	Total
Assets and liabilities					
Intangible assets	276	76	283	-	635
Property, plant and equipment	4,932	6,674	1,422	(461)	12,567
Right-of-use asset	13	283	52	(6)	342
Investments in associates and joint venture	-	160	-	-	160
Inventories	170	2,212	231	(314)	2,299
Trade receivables, net	199	1,730	455	(358)	2,026
Not allocated assets					3,503
Total assets					21,532
Trade payables	289	1,138	443	(359)	1,511
Not allocated liabilities					8,805
Total liabilities					10,316
Other segment information					
Property, plant and equipment	608	1,329	135	(54)	2,018
Intangible assets	79	7	46	-	132
Capital expenditure:	687	1,336	181	(54)	2,150
Depreciation, amortisation and impairment (net)	1,207	748	180	(1)	2,134
Impairment charges (net)*	5	(87)	(19)	(8)	(109)

* See note 8

The following table presents information of financial position of INA Group operations for 2018:

31 December 2018	Exploration and Production	Refining and Marketing	Corporate and other	Intersegment transfers and consolidation adjustments	Total
Assets and liabilities					
Intangible assets	265	103	276	-	644
Property, plant and equipment	5,228	6,069	1,385	(398)	12,284
Investments in associates	-	150	-	-	150
Inventories	196	2,538	246	(335)	2,645
Trade receivables, net	218	1,583	420	(384)	1,837
Not allocated assets					3,182
Total assets					20,742
Trade payables	306	1,339	459	(384)	1,720
Not allocated liabilities					7,199
Total liabilities					8,919
Other segment information					
Property, plant and equipment	581	1,057	119	(61)	1,696
Intangible assets	68	13	40	-	121
Capital expenditure:	649	1,070	159	(61)	1,817
Depreciation, amortisation and impairment (net)	1,031	577	194	-	1,802
Impairment charges (net)*	225	(78)	9	9	165

* See note 8

4. SEGMENT INFORMATION (CONTINUED)

BY GEOGRAPHICAL

INA Group

31 December 2019	Republic of		Angola	Syria	Other		Total
	Croatia	Egypt			countries		
Intangible assets	451	-	-	-	184	635	
Property, plant and equipment	11,040	224	56	263	984	12,567	
Right-of-use asset	317	-	-	-	25	342	
Investments in joint venture	160	-	-	-	-	160	
Inventories	2,099	10	16	-	174	2,299	
Trade receivables, net	1,181	182	-	-	663	2,026	
Not allocated assets						3,503	
Total assets						21,532	
Other segment information							
Property, plant and equipment	1,758	99	8	-	153	2,018	
Intangible assets	71	60	-	-	1	132	
Capital expenditure:	1,829	159	8	-	154	2,150	

INA Group

31 December 2018	Republic of		Angola	Syria	Other		Total
	Croatia	Egypt			countries		
Intangible assets	459	1	-	-	184	644	
Property, plant and equipment	10,910	131	82	255	906	12,284	
Investments in associates	150	-	-	-	-	150	
Inventories	2,491	7	7	-	140	2,645	
Trade receivables, net	1,145	157	-	-	535	1,837	
Not allocated assets						3,182	
Total assets						20,742	
Other segment information							
Property, plant and equipment	1,416	78	9	-	193	1,696	
Intangible assets	115	1	-	-	5	121	
Capital expenditure:	1,531	79	9	-	198	1,817	

4. SEGMENT INFORMATION (CONTINUED)

INA Group

	<i>Revenues from external customers</i>	
	2019	2018
Republic of Croatia	13,100	12,289
Bosnia and Hercegovina	3,251	2,966
Italy	1,066	789
Great Britain	1,014	1,030
Hungary	869	447
Switzerland	434	2,142
Other countries	2,863	2,686
	22,597	22,349

INA, d.d.

	<i>Revenues from external customers</i>	
	2019	2018
Republic of Croatia	13,008	12,207
Bosnia and Hercegovina	2,698	2,538
Italy	1,066	789
Great Britain	1,014	1,027
Hungary	632	192
Switzerland	432	2,127
Other countries	2,246	2,190
	21,096	21,070

Information about major customers

In 2019 and 2018 there was no single customer that would contribute to 10% or more of the Company and the Group's revenue.

5. OTHER OPERATING INCOME

	INA Group		INA, d.d.	
	2019	2018	2019	2018
Income from rental activities	49	46	47	43
Surpluses	29	27	26	29
Profit from sale of assets	20	4	16	12
Commission fee and charges	29	25	27	24
Rebates and grants	13	7	11	7
Income from revaluation of emission quotas	11	44	11	44
Payment in kind	10	8	8	7
Penalty interest from customers	6	25	5	25
Income from contribution of asset to subsidiary	-	-	112	9
Gain on acquisition*	-	291	-	103
Other	67	52	57	32
Total	234	529	320	335

*Please see note 41 for more details on gain recognised on acquisition.

6. DEPRECIATION, AMORTISATION AND IMPAIRMENT (NET)

	INA Group		INA, d.d.	
	2019	2018	2019	2018
Depreciation of property, plant and equipment (note 14 b)	1,701	1,639	1,511	1,533
Impairment of tangible and intangible assets (net) (note 13 and 14)	325	103	187	103
Amortisation of right -of-use asset	56	-	81	-
Amortisation of intangible assets (note 13)	45	47	42	46
Write-off PP&E, net	7	13	4	6
	2,134	1,802	1,825	1,688

7. STAFF COSTS

	INA Group		INA, d.d.	
	2019	2018	2019	2018
Net payroll	1,056	1,010	479	486
Tax and contributions for pensions and health insurance	640	657	325	348
Other payroll related costs	274	260	114	116
	1,970	1,927	918	950

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

	INA Group		INA, d.d.	
	2019	2018	2019	2018
	Number of employees	Number of employees	Number of employees	Number of employees
Refining and Marketing	6,023	6,227	2,122	2,422
Corporate and other	3,496	3,445	528	592
Exploration and Production	1,056	1,170	1,027	1,124
	10,575	10,842	3,677	4,138

8. IMPAIRMENT CHARGES (NET)

	INA Group		INA, d.d.	
	2019	2018	2019	2018
Impairment of inventory, net	107	85	96	78
Impairment of trade receivables, net*	(7)	(259)	(24)	(246)
Other impairment, net	9	9	7	6
	109	(165)	79	(162)

*see note 3

9. PROVISIONS FOR CHARGES AND RISKS (NET)

	INA Group		INA, d.d.	
	2019	2018	2019	2018
Provision for retirement and jubilee benefits	7	-	-	-
Provision/(utilisation) of provision for incentives	5	(6)	8	(4)
Provision for decommissioning charges	-	-	69	-
Utilisation of provision for environmental liabilities	(6)	(13)	(4)	(6)
(Utilisation)/provision for legal claims	(29)	5	(23)	(7)
(Utilisation)/provision for emission rights	(51)	82	(51)	82
Utilisation of provision for renewable energy	(63)	(39)	(63)	(39)
Other provisions	11	(16)	8	(9)
	(126)	13	(56)	17

10. FINANCE INCOME AND FINANCE COST

	INA Group		INA, d.d.	
	2019	2018	2019	2018
Foreign exchange gains from trade receivables and payables	44	17	27	1
Interest received and other financial income	30	4	54	32
Foreign exchange gains from loans and cash	20	26	19	19
Dividends received	10	1	10	-
Reversal of impairment from investment	-	6	1	111
Profit allocation received from subsidiaries	-	-	62	120
Reversal of impairment from loans given to subsidiaries	-	-	-	222
Finance income	104	54	173	505
Interest expense	76	90	80	92
Foreign exchange losses from loans and cash	42	27	40	23
Foreign exchange losses from trade receivables and payables	40	61	17	43
Fees on bank loans	11	29	11	28
Foreign exchange losses from provisions	7	7	7	7
Interest lease for right-of-use asset	3	-	2	-
Interest expense regarding legal cases	2	3	-	3
Interest for long-term loans	1	5	1	5
Capitalized borrowing costs	(5)	(3)	(5)	(3)
Other financial costs	3	2	2	3
Finance costs	180	221	155	201
Net (loss)/gain from financial activities	(76)	(167)	18	304

11. TAXATION

	INA Group		INA, d.d.	
	2019	2018	2019	2018
Deferred tax charge related to origination and reversal of temporary differences	139	286	134	287
Current tax expense	31	57	12	36
Income tax expense	170	343	146	323

Tax on profit generated in Croatia is determined by applying the rate of 18 percent, on pre-tax profit for the year.

Income taxes are recorded based on 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.	
	2019	2018	2019	2018
Profit before tax	659	1,520	802	1,657
Expense tax calculated at 18%	119	274	144	298
Income tax expense of entities operating in other jurisdictions	14	45	12	36
Adjustment of deferred tax assets as a result of new estimation of utilization	47	42	5	2
Tax effect of permanent differences	(10)	(17)	(15)	(13)
Tax effect of previous years	-	(1)	-	-
Income tax expense	170	343	146	323

Deferred tax assets and liabilities are measured by applying tax rates to be implemented in the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or put into effect at the end of the reporting period.

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

INA - INDUSTRIJA NAFTE, d.d.

Notes to the financial statements (continued)

For the year ended 31 December 2019

(all amounts are presented in HRK millions)

11. TAXATION (CONTINUED)

INA Group	Impairment of current assets	Impairment of tangible and intangible assets	Reversal of depreciatio n for impaired asset	Other provision s	Impairment of financial investment s	Tax losse s	Deferre d taxes on fair value	Total
Balance at 1 January 2018	47	1,247	(538)	156	182	351	(8)	1,437
Charge directly to equity	-	-	-	-	34	-	-	34
Reversal of temporary differences	(4)	(21)	(97)	(56)	(55)	(207)	-	(440)
Origination of temporary differences	23	48	-	66	13	4	-	154
Balance at 31 December 2018	66	1,274	(635)	166	174	148	(8)	1,185
Charge directly to equity	-	-	-	(3)	(23)	-	-	(26)
Reversal of temporary differences	(23)	(8)	(88)	(65)	(95)	(11)	-	(290)
Origination of temporary differences	7	48	-	48	-	47	1	151
Balance at 31 December 2019	50	1,314	(723)	146	56	184	(7)	1,020

INA - INDUSTRIJA NAFTE, d.d.

Notes to the financial statements (continued)

For the year ended 31 December 2019

(all amounts are presented in HRK millions)

11. TAXATION (CONTINUED)

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	Tax losses	Total
Balance at 1 January 2018	41	1,244	(538)	141	126	329	1,343
Charge directly to equity	-	-	-	-	34	-	34
Reversal of temporary differences	(2)	(19)	(97)	(49)	(55)	(208)	(430)
Origination of temporary differences	22	45	-	59	12	4	142
Balance at 31 December 2018	61	1,270	(635)	151	117	125	1,089
Charge directly to equity	-	-	-	(3)	(23)	-	(26)
Reversal of temporary differences	(22)	(7)	(88)	(57)	(93)	(5)	(272)
Origination of temporary differences	5	48	-	38	-	47	138
Balance at 31 December 2019	44	1,311	(723)	129	1	167	929

12. EARNINGS PER SHARE

	INA Group	
	31 December 2019	31 December 2018
Basic and diluted earnings per share (HRK per share)	48.57	117.75
Earnings	INA Group	
	31 December 2019	31 December 2018
Earnings used in the calculation of total basic earnings per share	486	1,178
	486	1,178
Number of shares	INA Group	
	31 December 2019	31 December 2018
	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 2019 Regular Shareholders' Assembly of INA, d.d. was held and decision on dividend pay-out in amount of HRK 1,250 million was voted (HRK 125.00 per share) and in 2018 it was HRK 812 million (HRK 81.20 per share).

INA - INDUSTRIJA NAFTE, d.d.

Notes to the financial statements (continued)

For the year ended 31 December 2019

(all amounts are presented in HRK millions)

13. INTANGIBLE ASSETS

INA Group	Oil and gas properties	Software	Patents, Licences and other rights	Intangible assets under construction	Goodwill	Total
Balance at 1 January 2018	201	131	36	50	152	570
Additions	64	-	-	57	-	121
Amortisation	-	(44)	(3)	-	-	(47)
Impairment of assets under construction	(71)	-	-	-	-	(71)
Acquisition of subsidiary	48	-	-	-	-	48
Foreign exchange translation of foreign operations	(12)	-	-	-	-	(12)
Emission allowances (net)	-	-	49	-	-	49
Transfer	(1)	35	10	(58)	-	(14)
Balance at 31 December 2018	229	122	92	49	152	644
Additions	16	-	-	116	-	132
Amortisation	-	(42)	(3)	-	-	(45)
Foreign exchange translation of foreign operations	1	-	-	-	-	1
Emission allowances (net)	-	-	(28)	-	-	(28)
Transfer	(1)	25	5	(98)	-	(69)
Balance at 31 December 2019	245	105	66	67	152	635

In 2019, there was no impairment of intangible asset of oil and gas properties at INA Group, while in 2018, INA Group impaired asset under construction in amount of HRK 71 million.

INA - INDUSTRIJA NAFTE, d.d.

Notes to the financial statements (continued)

For the year ended 31 December 2019

(all amounts are presented in HRK millions)

13. INTANGIBLE ASSETS (CONTINUED)

INA, d.d.	Oil and gas properties	Software	Patents, Licences and other rights	Intangible assets under construction	Total
Balance at 1 January 2018	201	129	36	42	408
Additions	64	-	-	52	116
Amortisation	-	(44)	(2)	-	(46)
Impairment of assets under construction	(71)	-	-	-	(71)
Foreign exchange translation of foreign operations	(12)	-	-	-	(12)
Emission allowances (net)	-	-	49	-	49
Transfer	(1)	36	3	(51)	(13)
Balance at 31 December 2018	181	121	86	43	431
Additions	15	-	-	113	128
Amortisation	-	(41)	(1)	-	(42)
Foreign exchange translation of foreign operations	1	-	-	-	1
Emission allowances (net)	-	-	(29)	-	(29)
Transfer	(1)	24	-	(92)	(69)
Balance at 31 December 2019	196	104	56	64	420

13. INTANGIBLE ASSETS (CONTINUED)

Goodwill

Investment of Croscos, d.o.o. in Rotary Zrt. Hungary

	INA Group	
	2019	2018
Cost	296	296
Accumulated impairment losses	(144)	(144)
Net book value	152	152

During 2019 and 2018 goodwill relating to the company Rotary Zrt. was tested for impairment and the test showed that the impairment is not required.

The recoverable amount of Rotary Zrt. business as at 31 December 2019, has been determined based on a value in use calculation using cash flow projections from financial budgets approved by Company management covering a five-year period. The discount rate applied to cash flow projections is 8.6% (the same as in 2018) 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. Expenses are determined also in relation to the utilization of the assets.

It was concluded that the fair value has reached net book value (NBV) of goodwill recognized in books and impairment has not been charged.

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.

INA - INDUSTRIJA NAFTE, d.d.
Notes to the financial statements (continued)
For the year ended 31 December 2019
(all amounts are presented in HRK millions)

14. PROPERTY, PLANT AND EQUIPMENT

a) By business operations

INA Group

	Exploration and Production	Refining and Marketing	Corporate and other	Total
Balance at 31 December 2018				
Cost	44,603	22,516	5,953	73,072
Accumulated depreciation	39,591	16,543	4,654	60,788
Net book value	5,012	5,973	1,299	12,284
Balance at 31 December 2019				
Cost	45,578	23,329	6,205	75,112
Accumulated depreciation	40,885	16,782	4,878	62,545
Net book value	4,693	6,547	1,327	12,567

INA, d.d.

	Exploration and Production	Refining and Marketing	Corporate and other	Total
Balance at 31 December 2018				
Cost	39,259	21,304	1,629	62,192
Accumulated depreciation	34,335	15,890	1,381	51,606
Net book value	4,924	5,414	248	10,586
Balance at 31 December 2019				
Cost	40,057	22,003	1,878	63,938
Accumulated depreciation	35,286	16,102	1,590	52,978
Net book value	4,771	5,901	288	10,960

INA - INDUSTRIJA NAFTE, d.d.

Notes to the financial statements (continued)

For the year ended 31 December 2019

(all amounts are presented in HRK millions)

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

b) By asset type

INA Group

	Oil and gas properties	Land and buildings	Plant and machinery	Vehicles and office equipment	Collective Consumption assets	Assets under construction	Total
At cost							
Balance at 1 January 2018	35,139	12,239	14,137	2,375	47	2,257	66,194
Additions	-	-	-	-	-	1,696	1,696
Change in capitalised decommissioning costs	(32)	-	-	-	-	-	(32)
Foreign exchange translation of foreign operations	29	-	-	-	-	-	29
Assets put in use, Transfer	441	292	406	124	-	(1,256)	7
Acquisition of subsidiary	4,970	721	52	4	-	1	5,748
Transfer from assets held for sale	-	(12)	136	(2)	-	-	122
Share capital increase of subsidiary	-	(11)	-	(1)	-	-	(12)
Disposals	(43)	(49)	(289)	(45)	-	(93)	(519)
Currency translation	-	(101)	(61)	(1)	-	(1)	(164)
Other	-	-	-	3	-	-	3
Balance at 31 December 2018	40,504	13,079	14,381	2,457	47	2,604	73,072
Additions	-	-	-	-	-	2,018	2,018
Change in capitalised decommissioning costs	218	-	-	-	-	-	218
Assets put in use, Transfer	641	423	1,205	121	-	(2,390)	-
Transfer to assets held for sale	-	(28)	(2)	1	(1)	-	(30)
Transfer from intangible asset	-	-	8	-	-	61	69
Share capital increase of subsidiary	-	(7)	(90)	(6)	-	-	(103)
Disposals	-	(17)	(169)	(41)	(8)	(33)	(268)
Currency translation	158	(4)	(11)	-	-	1	144
Other	-	1	(28)	16	6	-	(5)
Balance at 31 December 2019	41,521	13,447	15,294	2,548	44	2,261	75,115

INA - INDUSTRIJA NAFTE, d.d.

Notes to the financial statements (continued)

For the year ended 31 December 2019

(all amounts are presented in HRK millions)

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

b) By asset type (continued)

INA Group

Accumulated depreciation	Oil and gas properties	Land and buildings	Plant and machinery	Vehicles and office equipment	Collective Consumption assets	Assets under construction	Total
Balance at 1 January 2018	31,345	8,860	11,518	2,151	43	261	54,178
Charge for the year	905	244	405	78	-	-	1,632
Change in capitalised decommissioning costs	(5)	-	-	-	-	-	(5)
Impairment (net)	(4)	-	-	-	-	-	(4)
Impairment of assets under construction	36	-	-	-	-	-	36
Transfer	-	-	4	-	-	(11)	(7)
Acquisition of subsidiary	4,778	665	48	4	-	(3)	5,492
Transfer from asset held from sale	-	(8)	128	(2)	-	-	118
Share capital increase of subsidiary	-	(11)	-	(1)	-	-	(12)
Disposals	(43)	(25)	(290)	(43)	-	(93)	(494)
Currency translation	1	(89)	(54)	(2)	-	-	(144)
Other	-	(1)	(3)	2	-	-	(2)
Balance at 31 December 2018	37,013	9,635	11,756	2,187	43	154	60,788
Charge for the year	914	257	433	91	-	-	1,695
Impairment	289	-	-	-	-	-	289
Impairment of assets under construction	-	-	-	-	-	36	36
Transfer to assets held for sale	-	(28)	(2)	2	(1)	-	(29)
Share capital increase of subsidiary	-	(8)	(89)	(6)	-	-	(103)
Disposals	(50)	(2)	(159)	(41)	(4)	-	(256)
Currency translation	122	2	(9)	-	1	(1)	115
Other	9	4	(12)	11	1	-	13
Balance at 31 December 2019	38,297	9,860	11,918	2,244	40	189	62,548

INA - INDUSTRIJA NAFTE, d.d.

Notes to the financial statements (continued)

For the year ended 31 December 2019

(all amounts are presented in HRK millions)

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

b) By asset type (continued)

INA Group	Oil and gas properties	Land and buildings	Plant and machinery	Vehicles and office equipment	Collective Consumption assets	Assets under construction	Total
Carrying amount							
Balance at 31 December 2019	3,224	3,587	3,376	304	4	2,072	12,567
Balance at 31 December 2018	3,491	3,444	2,625	270	4	2,450	12,284

INA - INDUSTRIJA NAFTE, d.d.

Notes to the financial statements (continued)

For the year ended 31 December 2019

(all amounts are presented in HRK millions)

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

b) By asset type (continued)

INA, d.d.	Oil and gas properties	Land and buildings	Plant and machinery	Vehicles and office equipment	Collective Consumption assets	Assets under construction	Total
At cost							
Balance at 1 January 2018	35,255	10,187	11,223	1,882	43	2,397	60,987
Additions	-	-	-	-	-	1,559	1,559
Change in capitalised decommissioning costs	(29)	-	-	-	-	-	(29)
Foreign exchange translation of foreign operations	29	-	-	-	-	-	29
Capital increase from transfer of assets to subsidiary	-	(15)	(1)	-	-	-	(16)
Assets put in use	442	208	353	95	-	(1,098)	-
Transfers	-	-	14	-	-	(8)	6
Disposals	(42)	(15)	(163)	(31)	-	(93)	(344)
Other	-	1	-	(2)	-	1	-
Balance at 31 December 2018	35,655	10,366	11,426	1,944	43	2,758	62,192
Additions	-	-	-	-	-	1,822	1,822
Change in capitalised decommissioning costs	174	-	-	-	-	-	174
Foreign exchange translation of foreign operations	-	-	-	-	-	-	-
Share capital increase of subsidiary	-	(1)	(92)	(6)	-	-	(99)
Assets put in use	641	283	1,000	102	-	(2,026)	-
Disposals	-	(26)	(128)	(30)	(1)	(33)	(218)
Other	-	-	7	(1)	-	61	67
Balance at 31 December 2019	36,470	10,622	12,213	2,009	42	2,582	63,938

INA - INDUSTRIJA NAFTE, d.d.

Notes to the financial statements (continued)

For the year ended 31 December 2019

(all amounts are presented in HRK millions)

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

b) By asset type (continued)

INA, d.d.	Oil and gas properties	Land and buildings	Plant and machinery	Vehicles and office equipment	Collective Consumption assets	Assets under construction	Total
Accumulated depreciation							
Balance at 1 January 2018	31,392	7,467	9,581	1,669	40	260	50,409
Charge for the year	914	181	363	68	-	-	1,526
Change in capitalised decommissioning costs	(5)	-	-	-	-	-	(5)
Impairment (net)	(4)	-	-	-	-	-	(4)
Impairment of assets under construction	36	-	-	-	-	-	36
Capital increase of subsidiary	-	(11)	-	(1)	-	-	(12)
Transfers	-	-	3	1	-	(11)	(7)
Disposals	(42)	(13)	(158)	(31)	-	(93)	(337)
Other	1	1	-	(2)	-	-	-
Balance at 31 December 2018	32,292	7,625	9,789	1,704	40	156	51,606
Charge for the year	813	188	425	78	-	-	1,504
Impairment	151	-	-	-	-	-	151
Impairment of assets under construction	-	-	-	-	-	36	36
Share capital increase of subsidiary	-	-	(89)	(6)	-	-	(95)
Recapitalization of subsidiary	-	-	1	1	(1)	(1)	-
Disposals	(33)	(21)	(126)	(30)	-	-	(210)
Other	(13)	-	-	(1)	-	-	(14)
Balance at 31 December 2019	33,210	7,792	10,000	1,746	39	191	52,978

INA - INDUSTRIJA NAFTE, d.d.

Notes to the financial statements (continued)

For the year ended 31 December 2019

(all amounts are presented in HRK millions)

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

b) By asset type (continued)

INA, d.d.	Oil and gas properties	Land and buildings	Plant and machinery	Vehicles and office equipment	Collective Consumption assets	Assets under construction	Total
Carrying amount							
Balance at 31 December 2019	3,260	2,830	2,213	263	3	2,391	10,960
Balance at 31 December 2018	3,363	2,741	1,637	240	3	2,602	10,586

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 14b) above) in the future is dependent upon the extent to which commercially recoverable oil and gas reserves are available. During 2019, Exploration and Production 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 refers to domestic residential accommodation for the workforce of the company and some of its subsidiaries.

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

IV) Carrying value of property, plant and equipment

The Management Board performed identification and assessment of indicators in accordance with IAS 36. Impairment test was performed on assets where indicators of impairment have been identified.

The total net impairment charge of INA Group is HRK 325 million in 2019 (2018: HRK 103 million), while in INA, d.d. the total net impairment charge of HRK 187 million in 2019 (2018: HRK 103 million).

- a) Exploration and Production recorded an impairment of property, plant and equipment in amount of HRK 289 million in 2019 at INA Group (compared to impairment in amount of HRK 103 million in 2018). Similarly to previous year Brent levels stay in the range around USD 60/bbl, which is a comfortable level for INA Group main oil fields. Still, the decrease in gas price, experienced in 2019 is expected to prolong which creates indicator for impairment testing of INA Group gas fields. No impairment indicators exist related to volumes, since there were no fields with significant negative reserve revision compared to reserve estimate from 2018. Oil and gas price assumptions used in the value in use models used for impairment testing were the following: 60 to 80 USD / barrel and 15.50 to 33 EUR/MWh for gas for the years from 2020 to 2040. Based on the value in use calculation following impairment by CGU has been determined at 31 December 2019:
- o Croatia offshore - total production wells impairment amounted to HRK 280 million - NACA HRK 269 million and ALCA HRK 11 million.
 - o Croatia onshore - impairment amounted to HRK 4 million was recorded on Zebanec gas field and impairment on other production wells in the amount of HRK 5 million.
 - o Negative wells – in 2019 no negative wells were identified. In 2018 impairment was recorded in respect to dry wells in the total amount of HRK 107 million (Božica HRK 60 million, Bunjani 2 South HRK 33 million, Drava II HRK 14 million).
- b) Refining and Marketing recorded impairment of assets under construction in Refinery Sisak in the amount of HRK 36 million (in 2018 no impairment or reversal of impairment of property, plant and equipment was recorded).
- c) Corporate and other recorded no impairment or reversal of impairment in 2019.

Discount rates used in the current assessment in 2019 and for 2018 are assets specific and are as follows:

	2019	2018
Exploration and Production		
Croatia	8.5%	8.5%

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

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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 have been adjusted to reflect the economic life of fields.

VI) Held-for-sale assets

Management expects that sales transactions will be closed within the following twelve months.

	INA Group		INA, d.d.	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Held-for-sale assets				
Property, plant and equipment	6	4	-	4
Assets classified held-for-sale	6	4	-	4

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

	INA, d.d.	
	31 December 2019	31 December 2018
Investments in subsidiaries	2,089	1,960

	INA, d.d.	
	2019	2018
Investments in subsidiaries at 1 January	1,960	1,079
INA Industrijski servisi d.o.o. - investment	915	-
CROSCO - transfer of shares to INA Industrijski servisi d.o.o.	(634)	-
STSI - transfer of shares to INA Industrijski servisi d.o.o.	(185)	-
STSI d.o.o. - share capital increase	10	-
INA Vatrogasni servisi d.o.o. - investment	23	-
ENERGOPETROL d.d. - share capital increase	-	496
INA Adria B.V. - investment	-	265
STSI, Integrirani tehnički servisi d.o.o. - reversal of impairment	-	39
INA SLOVENIJA d.o.o. - reversal of impairment	-	30
CROPLIN d.o.o. - reversal of impairment	-	25
CROSCO, naftni servisi d.o.o. - reversal of impairment	-	24
INA CRNA GORA d.o.o. - reversal of impairment	-	18
Holdina d.o.o. Sarajevo - share capital increase	-	13
Holdina d.o.o. Sarajevo - reversal of impairment	-	7
Hostin d.o.o. - reversal of impairment	-	7
PETROL d.d. RIJEKA - reversal of impairment	-	2
INA Maloprodajni servisi d.o.o. - reversal of impairment	-	1
Adrigas S.r.l. Milano - reversal of impairment	-	1
ENERGOPETROL d.d. - impairment	-	(47)
Total as of 31 December	2,089	1,960

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

The following portfolio changes were recorded in 2019:

By the Commercial Court decision at 19 June 2019, INA, d.d. established the company INA Vatrogasni Servisi d.o.o., owned 100%. The investment of INA Vatrogasni Servisi d.o.o. was made in cash in the amount of HRK 10 million and assets in the estimated value of HRK 22.5 million. The difference between the estimated fair value and the carrying amount of the asset was recognised as income of HRK 9.2 million in separate financial statements of INA, d.d.

By share purchase agreement between INA Adria B.V. and INA d.d. from 18 September 2019, INA d.d. purchased the remaining 50% of investment in INA Jadran, for HRK 0.1 million. At 30 September 2019 the Commercial Court registered INA d.d. as the only member of INA Jadran d.o.o.

At 26 September 2019 the Commercial Court registered the liquidation of INA Naftaplin International Exploration and Production Limited. The net investment value at the time of liquidation amounted to zero.

By the Commercial Court decision from 13 December 2019, INA, d.d. established the company INA Industrijski Servisi d.o.o., owned 100%. The investment of INA Industrijski Servisi d.o.o. was made in cash in the amount of HRK 0.25 million and by transferring the investments of CROSCO d.o.o., STSI d.o.o. and Plavi tim d.o.o. at estimated fair value of HRK 915 million. The difference between the estimated value and the carrying amount of the investment was recognised as income of HRK 97 million in separate financial statements of INA, d.d.

The following portfolio changes were recorded in 2018:

At 9 March 2018 Commercial Court in Sarajevo, registered the increase of share capital in HOLDINA Sarajevo d.o.o. by entering ownership of five properties. Properties in INA d.d. books were written off by net book value in amount HRK 4 million, while Holdina Sarajevo's share increased by the appraised value in amount of HRK 13 million. The difference of HRK 9 million was recognized within other operating income.

At 18 April 2018 Commercial Court in Sarajevo, registered the increase of share capital in ENERGOPETROL d.d. in the amount of HRK 496 million by issuing new 10,480,000 shares. In accordance with this transaction, INA d.d. increased investment from 67.02% to 88.66% in ENERGOPETROL d.d.

At 15 November 2018 INA, d.d. acquired the investments of ENI B.V. in the amount of HRK 265 million, and the company changed its name to INA Adria B.V. By acquiring investment at INA Adria, INA, d.d. has become the sole owner of INAgip, a company that has changed its name to INA Jadran d.o.o. and is continuing to operate as the joint operation.

In 2018, based on using discounted cash flow method for valuation of investment in subsidiaries, INA, d.d. recognised reversal of impairment of investment in amount of HRK 107 million. Impairment of investments and reversal of impaired investment are recorded in INA Group companies as presented in the table above.

The following are subsidiaries in which the Company holds an interest (*a subsidiary in the direct ownership of the Company):

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

The name of subsidiary	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held by the Group	
			31	31
			December 2019	December 2018
<i>Oilfield services</i>				
CROSCO, naftni servisi d.o.o.	Oilfield services	Croatia	100%	100%
Croscos B.V.	Oilfield services	Netherlands	100%	100%
NORDIC SHIPPING LIMITED	Lease of drilling platforms	Marshall Islands	100%	100%
SEA HORSE SHIPPING Inc	Lease of drilling platforms	Marshall Islands	100%	100%
Rotary Zrt.	Oilfield services	Hungary	100%	100%
CROSCO UKRAINE LLC.	Oilfield services	Ukraine	100%	100%
CROSCO International d.o.o.	Oilfield services	Bosnia and Herzegovina	100%	100%
Croscos S.A. DE C.V.	Oilfield services	Mexico	99.90%	99.90%
<i>Oil exploration and production</i>				
*INA Naftapljin International Exploration and Production Ltd	Oil exploration and production	Guernsey	-	100%
*INA ADRIA B.V.	Extraction of natural gas	Netherlands	100%	100%
*INA Jadran d.o.o.	Extraction of natural gas	Croatia	100%	100%
<i>Tourism</i>				
*Hostin d.o.o.	Asset management, tourism	Croatia	100%	100%
<i>Ancillary services</i>				
STSI Integrirani tehnički servisi d.o.o.	Technical services	Croatia	100%	100%
*Top Računovodstvo Servisi d.o.o.	Accounting services	Croatia	100%	100%
Plavi tim d.o.o.	Informatics service	Croatia	100%	100%
*INA Vatrogasni Servisi d.o.o.	Firefighting	Croatia	100%	-
*INA Industrijski Servisi d.o.o.	Holding company	Croatia	100%	-
<i>Production and trading</i>				
*INA MAZIVA d.o.o.	Production and lubricants trading	Croatia	100%	100%
<i>Trading</i>				
*INA Slovenija d.o.o. Ljubljana	Foreign trading	Slovenia	100%	100%
*INA BH d.d. Sarajevo	Foreign trading	Bosnia and Herzegovina	100%	100%
*Holdina d.o.o. Sarajevo	Foreign trading	Bosnia and Herzegovina	100%	100%
*INA d.o.o. Beograd	Foreign trading	Serbia	100%	100%
*INA Kosovo d.o.o.	Foreign trading	Kosovo	100%	100%
*Adrigas S.r.l. Milano	Pipeline project company	Italy	100%	100%
*INA Crna Gora d.o.o. Podgorica	Foreign trading	Montenegro	100%	100%
*PETROL d.d.	Trading	Croatia	100%	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%
*ENERGOPETROL d.d.	Retail (oil and lubricant)	Bosnia and Herzegovina	88.66%	88.66%
*INA BL d.o.o. Banja Luka	Trading	Bosnia and Herzegovina	100%	100%

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

At 31 December 2019 and 31 December 2018 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.

16. INVESTMENTS IN ASSOCIATES AND JOIN VENTURE

Name of company	Activity	Proportion of ownership	INA Group		INA, d.d.	
			31 December 2019	31 December 2018	31 December 2019	31 December 2018
Terra mineralna gnojiva d.o.o.	Purchase and sale of goods	50.00%	160	150	160	150
			160	150	160	150

The Company has interests in other entities as follows:

Name of company	Activity	Place of incorporation and operation	INA Group and INA, d.d.	
			31 December 2019	31 December 2018
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%
ED INA d.o.o. Zagreb*	Research, development and hydrocarbon production	Zagreb, Croatia	50%	50%
Marina Petroleum Company *	Exploration and production oil operator	Cairo, Egypt	50%	50%
TERRA MINERALNA GNOJIVA d.o.o.	Purchase and sale of goods	Zagreb, Croatia	50%	50%
Belvedere d.d.	Hotel trade	Dubrovnik, Croatia	31.80%	31.80%
ELEKTROMETAL d.d.	Installing and mounting works, production of fire-proof elements, gas distribution	Bjelovar, Hrvatska	30.75%	30.75%

*investments that are joint operations in INA, d.d. and INA Group

16. INVESTMENTS IN ASSOCIATES AND JOINT VENTURE (CONTINUED)

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

	INA Group and INA, d.d.	
	31 December 2019	31 December 2018
Aggregate carrying amount of the interests in these associates and joint ventures	-	-
The Group's share of profit from interest in non individually material associates and joint ventures	-	-
The Group's share of other comprehensive income	-	-
The Group's share of total comprehensive income	-	-

In 2019, by equity method INA, d.d. recorded a share of profit in the amount of HRK 10 million presented in the line *Share of profit of joint ventures accounted for using the equity method* of Statement of Profit and Loss.

By decision of the Commercial Court in Zagreb from 14 May 2019 the liquidation process of the company Terme Zagreb d.o.o was completed and in the books of INA, d.d. investment was written off. The net investment value at the time of liquidation amounted to zero.

At 2 July 2018, based on the Commercial Court decision, Terra mineralna gnojiva d.o.o. was incorporated. INA, d.d. has 50% ownership of Terra mineralna gnojiva d.o.o. and participated with an investment of HRK 50,000.00 in share capital.

At 31 October 2018, INA, d.d. and Prvo plinarsko društvo d.o.o. as investors signed the Recapitalization Agreement on Petrokemija d.d. with CERP as a representative of the Republic of Croatia. INA, d.d. and Prvo plinarsko društvo d.o.o. paid HRK 300 million (HRK 150 million each), for 30,000,000 Petrokemija's shares after which they became majority owners of Petrokemija d.d., holding more than 50% of the share capital and respective management rights. The transaction was conducted through INA's and PPD's joint venture company Terra mineralna gnojiva d.o.o., which operates the company in accordance with the signed Shareholders' Agreement.

As at 31 December 2018, two months result share of INA, d.d. and Group, in Petrokemija Group, is not included in INA Group financial statements.

16. INVESTMENTS IN ASSOCIATES AND JOINT VENTURE (CONTINUED)

Summarised statements of financial position and comprehensive income of Terra mineralna gnojiva d.o.o. - consolidated (INA, d.d. share 50%)

	Petrokemija d.d.
Place of business	Kutina; Hrvatska
Terra Mineralna Gnojiva d.o.o. share of interests	54%
	30 September 2019*
Current assets	758
Non-current assets	786
Current liabilities	(465)
Non-current liabilities	(586)
Operating income	1,649
Operating expense	(1,511)
Total comprehensive income for the year	138
INA, d.d. share in profit	38
Investments in joint venture as at 1 January 2019	150
INA, d.d. share in profit	10
Total carrying amount of interest as at 31 December 2019	160

* based on the latest available information from October 2019

17. OTHER INVESTMENTS

	INA Group		INA, d.d.	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Financial assets at fair value through profit or loss	10	9	8	7
Deposits	7	7	7	7
Long-term loans given to subsidiaries	-	-	730	738
	17	16	745	752

In total, the amount of long-term loans relates to given loans to subsidiaries (see note 37).

18. LONG-TERM RECEIVABLES AND OTHER ASSETS

INA Group	31 December 2019	31 December 2018
Receivables from long-term contracts	436	436
Prepayments for property, plant and equipment	363	181
Receivables for apartments sold	39	49
Prepayments for intangible assets	13	25
Other long-term receivables	47	41
	898	732

INA, d.d.	31 December 2019	31 December 2018
Receivables from long-term contracts	436	436
Prepayments for property, plant and equipment	360	180
Receivables for apartments sold	38	49
Prepayments for intangible assets	13	25
Long-term receivables from related party	9	12
Other long-term receivables	46	41
	902	743

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 29). 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.

19. NON-CURRENT FINANCIAL ASSETS

Equity instruments available-for-sale

			INA Group and INA, d.d.	
Name of the Company	Activity	Place of incorporation and operation	31 December 2019	31 December 2018
Jadranski Naftovod d.d.	Pipeline ownership and operations	Zagreb, Croatia	11.795%	11.795%
OMV Slovenia d.o.o. Koper	Oil trading	Koper, Slovenia	7.75%	7.75%
Plinara d.o.o. Pula	Distribution and oil trading	Pula, Croatia	49.00%	49.00%
BINA-FINCOM d.d. Zagreb	Construction of highways and other roads, airfields airports	Zagreb, Croatia	5.00%	5.00%
HOC Bjelolasica d.o.o. Ogulin	Operations of sports facilities	Ogulin, Croatia	7.17%	7.17%
			2019	2018
Balance at the beginning of the year Jadranski Naftovod d.d.			431	243
Remesurment recognition in OCI, gross of income tax			128	188
Balance at the end of the year Jadranski Naftovod d.d.			559	431
Other investments			48	48
Balance at the end of the year non-current financial assets			607	479

As explained in note 37, a substantial portion of the trading income of JANAF d.d. is derived from INA, d.d.

The value of equity share in JANAF was reported by reference to the market value of a share as quoted on the Zagreb Stock Exchange as of 31 December 2019. The net book value of the equity investment in JANAF increased by HRK 128 million compared to the balance as of 31 December 2018 due to increase in the market value of the JANAF shares on Zagreb Stock Exchange. The market value of the shares (118,855 shares) as of 31 December 2019 amounted to HRK 4.700 per share (31 December 2018: HRK 3.620 per share).

20. INVENTORIES

	INA Group		INA, d.d.	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Refined products	911	907	844	860
Work in progress	408	558	407	556
Crude oil	392	516	392	516
Merchandise	248	246	188	173
Raw material	155	222	105	156
Spare parts, materials and supplies	185	196	89	90
	2,299	2,645	2,025	2,351

As of 31 December 2019 and 2018, inventories were measured at the lower of cost or net realizable value.

21. TRADE RECEIVABLES, NET

	INA Group		INA, d.d.	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Trade receivables	2,498	2,332	1,965	1,829
Impairment of trade receivables	(472)	(495)	(302)	(339)
	2,026	1,837	1,663	1,490

Receivables classified as performing are impaired by using the ECL rate. The effect of impairment losses using ECL for performing receivables of 0.04 % is HRK 1 million in 2019 (2018: ECL: 0.11%).

Impairment of trade receivables:

	INA Group		INA, d.d.	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Balance at beginning of the year	495	787	339	616
Impairment losses recognised on receivables	69	80	55	77
Amounts written off as uncollectible	(21)	(64)	(20)	(61)
Reversal of impairment on amounts recovered	(71)	(308)	(72)	(293)
Balance at end of the year	472	495	302	339

Trade receivables, net balance of INA Group above also includes related party receivables of HRK 356 million as of 31 December 2019 (2018: HRK 193 million) with related party entities out of INA Group (see note 37).

22. OTHER RECEIVABLES

	INA Group		INA, d.d.	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Foreign concessions receivables	59	52	59	52
Tax prepayments	31	25	(3)	1
Prepayment receivables	4	11	2	3
Employees receivables	3	5	-	1
Other receivables	46	28	28	16
	143	121	86	73

23. OTHER CURRENT ASSET

	INA Group		INA, d.d.	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Prepayments for customs, duties and other charges	59	48	32	31
Positive fair value of derivatives	51	113	51	113
Other short-term receivables	9	4	1	1
Accrued income	4	1	4	1
Short-term loans and deposits	2	5	1	3
Current portion of long terms loans	-	-	35	15
Other	11	3	8	1
	136	174	132	165

24. CASH AND CASH EQUIVALENTS

Cash comprises cash on hand and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Demand deposits are placed within financial institutions that can be withdrawn on demand, without prior notice being required or a penalty being charged.

	INA Group		INA, d.d.	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Demand deposit	442	382	345	304
Deposits until three months	106	4	105	-
Cash on hand	58	36	52	31
Cash and cash equivalents in statement of financial position	606	422	502	335
Overdrafts	(5)	-	-	-
Cash and cash equivalents in statement of cash flows	601	422	502	335

25. BANK LOANS

	INA Group		INA, d.d.	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Bank loans	2,825	1,962	2,600	1,767
Current portion of long-term loans	335	125	335	125
	3,160	2,087	2,935	1,892

	INA Group		INA, d.d.	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Unsecured bank loans in EUR	2,057	1,119	2,017	1,079
Unsecured bank loans in USD	503	600	503	588
Unsecured bank loans in HRK	231	243	80	100
Unsecured bank loans in HUF	34	-	-	-
	2,825	1,962	2,600	1,767

The most significant short-term loans as at 31 December 2019 are credit facilities for the financing of crude oil and petroleum products purchase ("trade finance") concluded with the first class banks, framework agreements for granting loans, issuing bank guarantees and opening letters of credits concluded with domestic banks, as well as short-term credit lines with foreign creditors.

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.

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

	INA Group		INA, d.d.	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Trade payables	1,511	1,720	1,089	1,242
Production and sales and other taxes payable	599	556	529	485
Payroll payables	172	149	119	95
Accrued bonuses	122	120	73	73
Contract liabilities	99	28	-	-
Negative fair value of derivatives	62	92	62	92
Advance payments	62	55	38	38
Payroll taxes and contributions	51	56	25	29
Accrued unused holiday	45	47	22	23
Mining fee	29	35	29	35
Accrued expenses	10	5	-	-
Accrued interest for long-term loans	2	3	2	3
Other	21	56	42	36
	2,785	2,922	2,030	2,151

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

Trade payables, net balance also includes payables of HRK 109 million as of 31 December 2019 (2018: HRK 164 million) with related party entities out of INA Group (see note 37).

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

27. LONG-TERM LOANS

Long-term loans are denominated in 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.

The outstanding loans of the Group are analysed as follows:

<u>Purpose of the loan</u>	<u>Loan currency</u>	<u>31 December 2019</u>	<u>31 December 2018</u>
Project financing	USD, EUR	335	125
		335	125
Due within one year		(335)	(125)
Total long-term loans INA, d.d.		-	-
Obligation under finance lease		-	4
Other long-term loans INA Group	EUR, USD, HUF, HRK	335	-
		335	4
Due within one year		(335)	-
Total long-term loans INA Group		-	4

INA Group	Weighted average interest rate	Weighted average interest rate	31 December 2019	31 December 2018
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
	%	%		
Bank loans in USD	2.60	4.01	-	98
Bank loans in EUR	0.90	1.23	335	27
Obligation under finance lease			-	4
Total			335	129
Payable within one year			(335)	(125)
Total long-term loans			-	4

27. LONG-TERM LOANS (CONTINUED)

INA, d.d.	Weighted average interest rate	Weighted average interest rate	31 December	31 December
	31 December 2019	31 December 2018	2019	2018
	%	%		
Bank loans in USD	-	4.01	-	98
Bank loans in EUR	0.90	1.23	335	27
Total			335	125
Payable within one year			(335)	(125)
Total long-term loans			-	-

The maturity of the loans may be summarised as follows:

	INA Group		INA, d.d.	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Current portion of long-term debt	335	125	335	125
Payable within one to two years	-	4	-	-
Total	335	129	335	125

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

	INA Group	INA, d.d.
Balance at 1 January 2018	244	244
New borrowings	-	-
Finance lease	4	-
Amounts repaid	(122)	(122)
Foreign exchange losses	3	3
Balance at 31 December 2018	129	125
Payable within one year (included within bank loans – note 25)	125	125
Payable after more than one year	4	-
Balance at 1 January 2019	129	125
New borrowings	335	335
Amounts repaid	(127)	(127)
Foreign exchange losses	(2)	2
Balance at 31 December 2019	335	335
Payable within one year (included within bank loans – note 25)	-	-
Payable after more than one year	-	-

27. LONG-TERM LOANS (CONTINUED)

The principal long-term loans outstanding at 31 December 2019 and loans agreements in 2019 were as follows:

ING BANK N.V., LONDON BRANCH

In 2018 INA, d.d. signed a 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. First extension option has been executed in 2019, extending the final maturity of the loan for one year. As at 31 December 2019 the loan was utilized in the amount of EUR 35 million.

MOL Group

In 2018 INA, d.d. signed an amendment to the intragroup long-term multi-currency revolving loan agreement for general corporate purposes provided from MOL Group in the amount of USD 100 million and with loan agreement maturity of 3 years. Final maturity of the loan has been extended in 2019 for one additional year. As at 31 December 2019 the loan was utilized in the amount of EUR 10 million.

Reconciliation of liabilities arising from financing activities

The table below details changes in the liabilities arising from financial activities, including both cash and noncash changes, and for which the INA Group and INA, d.d. assess to be materially significant. Liabilities arising from financial activities are those for which cash flows were, or future cash flows will be, classified in the consolidated and standalone statements of cash flows as cash flows from financial activities.

INA Group

	1 January 2019	Cash flow	Foreign exchange movement	Changes in fair values	Other	31 December 2019
Short-term loans	2,087	1,030	38	-	5	3,160
Long-term loans	4	(4)	-	-	-	-
Repayment of lease liabilities	-	344	-	-	-	344
Dividend payable	-	(1,250)	-	-	1,250	-
Derivatives	91	(34)	-	4	-	61
Total liabilities	2,182	86	38	4	1,255	3,565

INA, d.d.

	1 January 2019	Cash flow	Foreign exchange movement	Changes in fair values	Other	31 December 2019
Short-term loans	1,893	1,005	38	-	-	2,936
Loans from related parties	194	88	-	-	-	282
Long-term loans	-	-	-	-	-	-
Repayment of lease liabilities	-	325	-	-	-	325
Dividend payable	-	(1,250)	-	-	1,250	-
Derivatives	91	(34)	-	4	-	61
Total liabilities	2,178	134	38	4	1,250	3,604

27. LONG-TERM LOANS (CONTINUED)

INA Group

	1 January 2018	Cash flow	Foreign exchange movement	Changes in fair values	Other	31 December 2018
Short-term loans	1,703	387	(3)	-	-	2,087
Long-term loans	122	(122)	-	-	4	4
Dividend payable	-	(812)	-	-	812	-
Derivatives	65	62	-	(36)	-	91
Total liabilities	1,890	(485)	(3)	(36)	816	2,182

INA, d.d.

	1 January 2018	Cash flow	Foreign exchange movement	Changes in fair values	Other	31 December 2018
Short-term loans	1,481	408	4	-	-	1,893
Loans from related parties	184	10	-	-	-	194
Long-term loans	122	(122)	-	-	-	-
Dividend payable	-	(812)	-	-	812	-
Derivatives	65	62	-	(36)	-	91
Total liabilities	1,852	(454)	4	(36)	812	2,178

Compliance with loan agreements

During 2019 and 2018 INA Group members 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.

28. LEASES

As a lessee

As a lessee, the Company and the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Company and the Group recognise the right-of-use assets and lease liabilities for all leases except low-value leases and short-term leases.

The Company and the Group have lease contracts for various items of plant, machinery, vehicles and other equipment used in its operations. Leases of plant and machinery generally have lease terms between 2 and 20 years, while motor vehicles generally have lease terms up to 5 years. The obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Company and the Group are restricted from assigning and subleasing the leased assets. Several lease contracts include extension options and variable lease payments. The Company and the Group also have certain leases of machinery with lease terms of 12 months or less and leases of office equipment with low value. However, the Company and the Group have elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Company and the Group recognise the lease payments associated with these leases as expense on a straight-line basis over the lease term.

28. LEASES (continued)

The Company and the Group present right-of-use assets from leases in separate line item of statement of financial position. The recognised right-of-use assets relate to the following types of assets and the movements during the period:

INA GROUP	Land and buildings	Vehicles	Plant and machinery, office equipment and other	Total
Additions and capitalisations due to new standard (IFRS 16) at 1 January 2019	28	72	56	156
Additions in period due to new contracts	83	152	12	247
Depreciation for the period	(7)	(34)	(15)	(56)
Other decreasing (i.e. impairment, termination)	(4)	-	(1)	(5)
Balance at 31 December 2019	100	190	52	342

INA, d.d.	Land and buildings	Vehicles	Plant and machinery, office equipment and other	Total
Additions and capitalisations due to new standard (IFRS 16) at 1 January 2019	267	60	57	384
Additions in period due to new contracts	90	122	14	226
Depreciation for the period	(34)	(29)	(18)	(81)
Balance at 31 December 2019	323	153	53	529

Lease liabilities

Maturity analysis contractual undiscounted cash flow as at 31 December 2019:

	INA Group		INA, d.d.	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Analysed as:				
Liabilities within 1 year	76	-	95	-
Liabilities between 2-5 years	231	-	319	-
Liabilities over 5 years	54	-	136	-
Total undiscounted liabilities at 31 December 2019	361	-	550	-

28. LEASES (continued)

Total carrying amounts of lease liabilities (including under interest bearing loans and borrowings) in the statement of financial position:

	INA Group		INA, d.d.	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Leasee liabilities at 1 January 2019	156	-	384	-
Additions	247	-	226	-
Accretion of interest	3	-	3	-
Payments	(63)	-	(83)	-
Foreign exchange difference	1	-	1	-
Leasee liabilities at 31 December 2019	344	-	531	-
Analysed as:				
Current liabilities for lease	68	-	90	-
Non-current liabilities for lease	276	-	441	-

The following are the amounts recognised in the profit and loss:

	INA Group	INA, d.d.
	31 December 2019	31 December 2019
Depreciation of right -of-use asset	56	81
Interest expense of lease for right-of-use asset	3	3
Expenses for the period relating to short-term leases or leases of low-value assets	81	40
Expense for the period relating to variable lease payments not included in the measurement of lease liabilities	14	-
	154	124

29. OTHER NON-CURRENT LIABILITIES

	INA Group		INA, d.d.	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Liabilities to Government for sold apartments	21	26	21	26
Deferred income for sold apartments	2	3	2	3
Other long-term liabilities	17	15	16	15
	40	45	39	44

The long-term payable to the government relates to obligation arising on the sale of housing units to employees under the government program (see note 18). According to the law, 65% of the proceeds from the sale of apartments to employees were payable to the state when the proceeds were collected by the Company and the Group. According to the law, INA, d.d. has no liability to remit the funds unless and until they are collected from the employee.

INA - INDUSTRIJA NAFTE, d.d.

Notes to the financial statements (continued)

For the year ended 31 December 2019

(all amounts are presented in HRK millions)

30. PROVISIONS

INA Group	Decommissioning charges	Environmental provision	Legal claims	Renewable energy provision	Redundancy costs	Other	Total
Balance at 1 January 2018	2,538	335	137	115	17	289	3,431
Increase related to acquisition of subsidiary	311	-	-	-	-	-	311
Charge for the year	-	151	42	32	11	18	254
Effect of change in estimates	(63)	4	-	-	-	-	(59)
Unwidng of discount	53	8	-	-	-	-	61
Provision utilised/reversed during the year	-	(86)	(38)	(72)	(17)	(20)	(233)
Balance at 31 December 2018	2,839	412	141	75	11	287	3,765
Charge for the year	-	101	14	12	60	20	207
Effect of change in estimates	218	11	-	-	-	-	229
Unwidng of discount	38	4	-	-	-	6	48
Provision utilised/reversed during the year	(9)	(167)	(43)	(75)	(55)	(5)	(354)
Balance at 31 December 2019	3,086	361	112	12	16	308	3,895

INA - INDUSTRIJA NAFTE, d.d.

Notes to the financial statements (continued)

For the year ended 31 December 2019

(all amounts are presented in HRK millions)

30. PROVISIONS (CONTINUED)

INA, d.d.	Decommissioning charges	Environmental provision	Legal claims	Renewable energy provision	Redundancy costs	Other	Total
Balance at 1 January 2018	2,701	323	37	115	6	280	3,462
Increase related to acquisition of subsidiary	333	-	-	-	-	-	333
Charge for the year	-	151	18	32	-	11	212
Effect of change in estimates	(61)	8	-	-	-	-	(53)
Unwidng of discount	56	8	-	-	-	5	69
Provision utilised/reversed during the year	-	(82)	(25)	(72)	(4)	(12)	(195)
Balance at 31 December 2018	3,029	408	30	75	2	284	3,828
Charge for the year	-	97	5	12	60	20	194
Effect of change in estimates	232	11	-	-	-	-	243
Unwidng of discount	40	4	-	-	-	6	50
Provision utilised/reversed during the year	-	(164)	(28)	(75)	(52)	(6)	(325)
Balance at 31 December 2019	3,301	356	7	12	10	304	3,990

	INA Group		INA, d.d.	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Analysed as:				
Current liabilities	179	303	116	229
Non-current liabilities	3,716	3,462	3,874	3,599
	3,895	3,765	3,990	3,828

30. PROVISIONS (CONTINUED)

Decommissioning charges

The Company and the Group record provisions at present value of estimated future costs of abandoning oil and gas production facilities estimated at 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. In case there is no related asset, the change in provision estimate is charged to profit and loss statement.

As of 31 December 2019, INA, d.d. recognised a decommissioning provision for 45 oil and gas production fields, 7 non-production fields, 10 positive non-production fields and 357 dry non-production wells. As of 31 December 2018, INA, d.d. recognised a decommissioning provision for 45 oil and gas production fields, 6 non-production fields, 10 positive non-production fields and 357 dry non-production wells.

Environmental provision

The environmental provision recorded by INA Group is HRK 361 million as of 31 December 2019 (31 December 2018: HRK 412 million). The environmental provision covers treatment of accumulated waste generated by former activity, soil excavation and replacement during the reconstruction of service stations and comprehensive investigation to determine the extent of the soil and groundwater contaminations.

Emission allowances

Under European Union Emission Trading Scheme, INA, d.d. 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 submit allowances equal to its actual verified emissions. The number of emission allowances allocated for free is calculated by the 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 material 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.

Legal claims

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

Renewable energy provision

Renewable energy provision relates to the potential compliance cost which can arise from the Act on bio fuels for transports and further regulated by Regulation on special environmental fee.

30. PROVISIONS (CONTINUED)

Other provisions

Other provisions of INA, d.d. in amount of HRK 305 million relate to provision for contractual liability for investments in Iran of HRK 264 million initially recognized in 2012. INA, d.d. is committed to spending certain resources by Production Agreement. Since Iran activities have been discontinued, the difference between contractual liability and actual funds spent was recognized as provisions. Remaining amount relates to provision for sediment and non-pumpable inventories in the amount of HRK 41 million.

31. RETIREMENT AND OTHER EMPLOYEE BENEFITS

According to the Collective Agreement, the Group bears 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 Collective Agreement in the following fixed amounts and anniversary dates for continuous service in the Company and the Group:

Anniversary of continuous services - years	10	15	20	25	30	35	40 and every 5 more years
Fixed amounts - HRK	1,500	2,000	2,500	3,000	3,500	4,000	5,000

The net amounts specified above, in terms of tax regulations are non-taxable. Defined amounts of jubilee awards are effective for Collective Agreement signed in 2018.

The actuarial valuations of the present value of the defined benefit obligation were carried out at 31 December 2019 and 2018 by independent actuarial expert. In 2019, the Company made a provision of HRK 15 million in respect of jubilee awards and HRK 7 million for regular retirement allowance, whereas in 2018 Company made provision in respect of jubilee awards in amount of HRK 14 million and for regular retirement HRK 22 million.

31. RETIREMENT AND OTHER EMPLOYEE BENEFITS (CONTINUED)

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

Actuarial estimates were derived based on the following key assumptions:

	Valuation at	
	31 December 2019	31 December 2018
Discount rate	0.8%	2.5%
Average longevity at retirement age for current pensioners (years)		
males	15.50	14.9
females	18.94	18.3
Average longevity at retirement age for current employees (future pensioners) (years)		
males	15.50	14.9
females	18.94	18.3
Mortality	Statistical Yearbook HR 2010-2012	Statistical Yearbook HR 2010-2012

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

	INA Group		INA, d.d.	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Service cost:				
Cost of current period	9	5	1	1
Interest	2	2	1	1
Past service cost, including losses/(gains) on curtailments	(4)	(7)	-	-
Components of defined benefit costs recognized in profit and loss:	7	-	2	2
Remeasurement of the net defined benefit liability:				
Actuarial gains and losses arising from changes in demographic assumptions	(12)	1	(8)	-
Actuarial gains and losses arising from changes in financial assumptions	7	3	-	2
Actuarial gains and losses arising from experience adjustments	(7)	-	(6)	-
Components of defined benefit costs recognised in profit and loss account and other comprehensive income:	(12)	4	(14)	2
Total	(5)	4	(12)	4

31. RETIREMENT AND OTHER EMPLOYEE BENEFITS (CONTINUED)

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

	INA Group		INA, d.d.	
	2019	2018	2019	2018
At 1 January	82	78	36	34
Cost of current period	9	5	1	2
Interest	2	2	1	1
<i>Actuarial (gains) or losses</i>				
Actuarial gains and losses arising from changes in demographic assumptions	(12)	1	(8)	-
Actuarial gains and losses arising from changes in financial assumptions	7	3	-	2
Actuarial gains and losses arising from experience adjustments	(7)	-	(6)	-
Past service cost, including losses/(gains) on curtailments	(4)	(7)	-	-
Benefit paid	-	-	(2)	(3)
Closing defined benefit obligation	77	82	22	36

32. SHARE CAPITAL

	INA Group and INA, d.d.	
	31 December 2019	31 December 2018
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.

33. FAIR VALUE RESERVES

	INA Group and INA, d.d.	
	31 December 2019	31 December 2018
Balance at the beginning of the year	135	289
Increase/(decrease) arising on revaluation of long-term financial asset (Janaf)	129	(188)
Deferred tax effect	(23)	34
Balance at the end of the year	241	135

In 2019, increase of fair value reserves was recorded due to increase of JANAF shares, while in 2018, decrease of fair value reserves was recorded due to decrease of JANAF shares value.

34. OTHER RESERVES

The amount of combined reserves of the Company and the Group includes 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 2018	492	537	40	447	1,516
Movements during 2018	-	29	(1)	-	28
Balance at 31 December 2018	492	566	39	447	1,544
Movements during 2019	-	34	12	-	46
Balance at 31 December 2019	492	600	51	447	1,590

INA, d.d.	Combined reserves at 31 December 1993	Foreign currency translation reserves	Reserve of defined benefit obligation	Other reserves	Total
Balance at 1 January 2018	27	794	32	285	1,138
Movements during 2018	-	47	(1)	-	46
Balance at 31 December 2018	27	841	31	285	1,184
Movements during 2019	-	18	12	-	30
Balance at 31 December 2019	27	859	43	285	1,214

35. RETAINED EARNINGS

	INA Group	INA, d.d.
	Retained earnings	Retained earnings
Balance at 1 January 2018	827	1,426
Effect of adoption of IFRS 9 <i>Financial instruments</i>	58	57
Transfer to legal reserves from retained earnings	(71)	(71)
Profit for the year	1,178	1,334
Acquiring of non-controlling interest	(144)	-
Dividend paid	(812)	(812)
Balance at 31 December 2018	1,036	1,934
Correction of prior period	2	-
Transfer to legal reserves from retained earnings	(67)	(67)
Profit for the year	486	656
Dividend paid	(1,250)	(1,250)
Balance at 31 December 2019	207	1,273

On the regular general shareholders' meeting of INA, d.d. held on 12 June 2019 profit for the year 2018 in amount of HRK 1,334 million is distributed to legal reserves in the amount of HRK 67 million, retain earnings in the amount of 18 million and dividend payment in the amount of HRK 1,250 million (i.e. HRK 125.00 per share).

On the regular general shareholders' meeting of INA, d.d. held on 27 June 2018 profit for the year 2017 in amount of HRK 1,426 million is distributed to legal reserves in the amount of HRK 71 million and dividend payment in the amount of HRK 812 million (i.e. HRK 81.20 per share).

36. NON-CONTROLLING INTEREST

	INA Group	
	31 December 2019	31 December 2018
Balance at the beginning of the year	9	(134)
Share of profit for the year	3	(1)
Acquisition of non-controlling interest	-	144
Balance at the end of the year	12	9

At 18 April 2018 Commercial Court in Sarajevo, registered the increase of share capital in Energopetrol d.d. in the amount of HRK 496.4 million by cash contribution. By this transaction, INA share in Energopetrol d.d. increased from 67.02% to 88.66%.

36. NON-CONTROLLING INTEREST (CONTINUED)

Proportion of equity interest of Energopetrol d.d. held by non-controlling interests:

Name	Country of incorporation and operation	2019	2018
Government of the Federation of Bosnia and Herzegovina	Federation of Bosnia and Herzegovina	7.61%	7.61%
Small shareholders		3.73%	3.73%

The table below is presenting financial information for subsidiary Energopetrol d.d. that has non-controlling interests that are material to INA Group. The amounts disclosed for Energopetrol d.d. are before intercompany eliminations.

	31 December 2019	31 December 2018
	Energopetrol d.d.	Energopetrol d.d.
Current assets	57	47
Current liabilities	138	149
Non-current assets	217	226
Non-current liabilities	91	105
Operating income after the acquisition date	480	507
Gain/(loss) for the period after the acquisition date	25	(13)
Total comprehensive gain/(loss) for the period after the acquisition date	25	(13)

37. 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 INA, d.d 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.

37. RELATED PARTY TRANSACTIONS (CONTINUED)

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

INA Group	Sales of goods and services		Purchase of goods and services	
	2019	2018	2019	2018
Share in company as non-current financial assets				
JANAF d.d. Zagreb	8	5	42	54
Governing company				
MOL Nyrt.	790	304	1,106	662
Companies controlled by governing company				
Tifon d.o.o.	609	613	9	7
MOL Serbia d.o.o.	78	20	-	-
MOL Slovenia d.o.o.	49	70	69	68
Slovnaft, a.s.	34	23	221	188
MOL Petrochemicals Co Ltd	21	111	3	5
MOL Commodity Trading Kft.	19	-	134	62
MOL Austria Handels GmbH	17	-	-	-
Geoinform Kft.	2	7	-	3
MOL Norge AS	2	-	-	-
MOL-LUB Kft.	1	6	4	5
IES Italiana Energia e Servizi S.p.A	-	-	7	5
MOL Germany GMBH	-	-	-	6
FGSZ Zrt.	-	-	3	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 2019	31 December 2018	31 December 2019	31 December 2018
Share in company as non-current financial assets				
JANAF d.d. Zagreb	1	1	2	2
Governing company				
MOL Nyrt.	230	33	60	77
Companies controlled by governing company				
Tifon d.o.o.	70	70	3	1
MOL Commodity Trading Kft.	48	63	49	71
MOL Slovenia d.o.o.	5	6	6	5
MOL Serbia d.o.o.	1	1	-	-
Geoinform Kft.	1	1	-	-
MOL Petrochemicals	-	10	-	-
Slovnaft, a.s.	-	7	36	7
MOL-LUB Kft.	-	1	1	1
IES S.p.A	-	-	1	-

37. RELATED PARTY TRANSACTIONS (CONTINUED)

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 and services		Purchase of goods and services	
	2019	2018	2019	2018
Related companies				
Holdina d.o.o. Sarajevo	2,624	2,463	-	1
INA Crna Gora d.o.o. Podgorica	444	337	-	-
INA Slovenija d.o.o. Ljubljana	99	91	-	-
STSI, Integrirani tehnički servisi d.o.o.	27	26	757	722
INA Jadran d.o.o.*	22	3	67	12
CROSCO, naftni servisi d.o.o.	13	14	275	341
Plavi tim d.o.o.	9	9	72	55
INA MAZIVA d.o.o.	7	7	57	57
INA Maloprodajni servisi d.o.o.	7	6	305	273
INA Adria B.V.	4	1	120	27
Energopetrol d.d.	4	31	-	-
INA vatrogasni servisi d.o.o.	3	-	42	-
Top Računovodstvo Servisi d.o.o.	3	3	49	55
Hostin d.o.o.	1	1	-	30
Adrigas S.r.l. Milano	-	-	3	-
INA d.o.o. Banja Luka	-	-	1	1
INA Kosovo d.o.o.	-	-	1	1
Share in company as non-current financial assets				
JANAF d.d. Zagreb	6	5	42	54
Governing company				
MOL Nyrt.	581	79	944	549
Companies controlled by governing company				
Tifon d.o.o.	607	611	9	7
MOL Serbia d.o.o.	78	20	-	-
MOL Slovenia d.o.o.	49	67	-	-
Slovnaft a.s.	34	23	219	187
MOL Petrochemicals Co Ltd	21	111	-	5
MOL Commodity Trading Kft.	19	-	134	62
MOL Austria	17	-	-	-
MOL Norge AS	2	-	-	-
Geoinform Kft.	1	1	-	-
IES Italiana Energia e Servizi S.p.A	-	-	7	5
FGSZ ZRT	-	-	3	1
MOL Germany GmbH	-	-	-	6

*Until 15 November 2018, transactions with INA Jadran d.o.o. and INA Adria B.V. were recorded as transactions with third parties. After the acquisition, the transactions between INA, d.d. and INA Adria B.V. / INA Jadran d.o.o. were recorded as transactions with related companies (from 15 November 2018 onwards).

37. 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 2019	31 December 2018	31 December 2019	31 December 2018
Related companies				
Holdina d.o.o. Sarajevo	203	192	1	1
INA Crna Gora d.o.o. Podgorica	52	33	-	-
CROSCO, naftni servisi d.o.o.	14	12	59	49
INA Slovenija d.o.o. Ljubljana	11	8	-	-
STSI, Integrirani tehnički servisi d.o.o.	9	7	199	232
INA MAZIVA d.o.o.	3	5	9	7
Plavi tim d.o.o.	3	3	16	12
INA Maloprodajni servisi d.o.o.	3	-	38	35
INA Jadran d.o.o.*	2	4	14	16
Top Računovodstvo Servisi d.o.o.	2	1	-	4
INA Adria B.V.*	1	2	16	32
INA vatrogasni servisi d.o.o.	-	-	11	-
Share in company as non-current financial assets				
JANAF d.d. Zagreb	-	1	2	2
Governing company				
MOL Nyrt.	198	1	43	68
Companies controlled by governing company				
Tifon d.o.o.	70	69	3	1
MOL Commodity Trading Kft.	48	63	49	71
MOL Slovenia d.o.o.	5	6	5	3
MOL Serbia d.o.o.	1	1	-	-
MOL Petrochemicals Co Ltd	-	10	-	-
Slovnaft a.s.	-	7	35	7
Geoinform Kft.	-	1	-	-
MOL Norge AS	-	-	-	-
IES Italiana Energia e Servizi S.p.A	-	-	1	-

*Until 15 November 2018, transactions with INA Jadran d.o.o. and INA Adria B.V. were recorded as transactions with third parties. After the acquisition, the transactions between INA, d.d. and INA Adria B.V. / INA Jadran d.o.o. were recorded as transactions with related companies (from 15 November 2018 onwards).

Receivables of INA, d.d. are presented net of impairment of bad and doubtful receivables.

In 2019 INA, d.d. has not recognised impairment on receivables from related parties (2018: HRK 0.4 million).

37. 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 2019	31 December 2018	31 December 2019	31 December 2018
Related companies				
Hostin d.o.o.	423	439	10	9
INA Crna Gora d.o.o. Podgorica	144	80	-	-
CROSCO, naftni servisi d.o.o.	104	94	-	-
Energopetrol d.d.	68	79	-	-
INA Slovenija d.o.o. Ljubljana	17	18	-	-
Holdina d.o.o. Sarajevo	11	45	-	-
INA BH d.d., Sarajevo	2	2	-	-
INA Adria B.V.*	-	-	185	111
INA MAZIVA d.o.o.	-	-	30	30
INA Maloprodajni servisi d.o.o.	-	-	21	16
STSI, Integrirani tehnički servisi d.o.o.	-	-	15	5
Adrigas S.r.l. Milano	-	-	12	12
Plavi tim d.o.o.	-	-	5	-
Top Računovodstvo Servisi d.o.o.	-	-	3	7
Croplin d.o.o.	-	-	1	4

*Until 15 November 2018, transactions with INA Jadran d.o.o. and INA Adria B.V. were recorded as transactions with third parties. After the acquisition, the transactions between INA, d.d. and INA Adria B.V. / INA Jadran d.o.o. were recorded as transactions with related companies (from 15 November 2018 onwards).

Hedge transactions with related parties:

INA Group and INA, d.d.	Expense from hedge transactions -net effect	Expense from hedge transactions -net effect
	2019	2018
Companies controlled by governing company		
MOL Commodity Trading Kft.	56	92

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

For oil products sales to related parties, INA, d.d. does not require payment security instruments, except in case of sales on foreign markets, in order to be compliant with the Foreign Exchange Act.

37. 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 2019	31 December 2018
Short-term employee benefits	39	39
Termination bonuses	3	5
Total	42	44

The amount included above refers to the remuneration of the Management Board Members and directors of second and third level organizational units.

A number of key management in INA, d.d. or their related parties, hold positions in other companies of INA Group that result in them having control or significant influence over these companies.

Other related party transactions

In 2018 INA, d.d. sold five service stations to the company Holdina Sarajevo. Net book value of service stations was HRK 4 million and they were sold under market price in the amount of HRK 13 million.

38. 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.

38. COMMITMENTS (CONTINUED)

Gas Transportation contracts

At 31 December 2019 the future gas transportation contracted commitments with Met Croatia and PPD Vukovar, until 1 October 2020 amount to approximately HRK 40 million in total (2018: HRK 55 million).

Gas purchase contract obligations (Take or pay)

INA, d.d concluded a Gas Purchase Obligation (*Take or pay*). The obligation refers to one-year natural gas import contract signed for gas year. Through this contract INA, d.d. will procure the quantities of gas needed to cover the gap in the sales. At 31 December 2019, the future contractual obligations for natural gas concluded with Met Croatia until 1 October 2020 amount to HRK 176 million (2018: HRK 153 million).

Lease contracts

The Group has various lease contracts that have not yet commenced as at 31 December 2019. The future lease payments under non-cancellable lease contracts outside INA Group are as follows:

	INA Group		INA, d.d.	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
within 1 year	18	49	17	43
between 2 - 5 years	17	58	17	45
beyond 5 years	-	17	-	17
	35	124	34	105

Out of the outstanding operating lease liabilities as of 31 December 2019 HRK 8 million were contracted by INA, d.d., while for 31 December 2018 HRK 105 million were contracted by INA, d.d., HRK 14 million were contracted by Plavi tim d.o.o. and HRK 3 million were contracted by Crosco d.o.o.

39. 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.

There is no doubt that safeguarding the environment is one of the biggest imperatives of our time. Businesses across every size, geography and sectors are rising up to the challenge and setting the pace through ambitious commitments and actions to reduce their environmental footprint and integrate sustainability into their core operations. In a changing regulatory environment, the impact on the business must be continuously assessed in order to identify the most cost effective measures that must be implemented in order to comply with increasingly stringent legal requirements. By implementing such measures in production and processing, we are reducing our impact on the environment. At the same time, we are improving reporting obligations, implementation and enforcement of environmental regulation at every organizational level.

In the first quarter of 2019, turnaround of the Rijeka refinery was done. This was the largest turnaround in history for Rijeka Refinery where, apart from maintenance activities, a number of investment projects are completed. The target was to ensure safe and reliable future operations, complete environmentally-related projects, and fulfil legal obligations to ensure a four-year operating cycle. Several efficiency projects are completed as well, which resulted in a reduction of emissions.

In 2019, an application for an amendment to the Rijeka Refinery and Sisak Refinery environmental permit was submitted to the Ministry of Environmental Protection and Energy. Baseline reports for refineries are also developed in phases, what was requested by authority.

European Union Emissions Trading System, EU ETS, is one of the fundamental mechanisms of the European Union in the fight against climate change. Inside the System, a part of the emission allowances (one allowance = 1 tonne of CO₂) are allocated to installations for free and they are used to "cover" the emissions from the previous year. If the installation has a shortage of allowances in respect to verified emissions, the rest must be bought on the market through auctioning. To achieve the EU's overall greenhouse gas emissions reduction target for 2030, the sectors covered by the EU ETS must reduce their emissions. All four INA's ETS installations conducted preparation for the revised EU ETS Directive, which will apply for the period 2021 until 2030.

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. Liabilities for environmental costs are recognised when environmental assessments or clean-ups are probable and the amount recognised is the best estimate of the expenditure required. In case of long-term liability, the present value of the estimated future expenditure is recognised. Typical provision based actions are soil and groundwater pollution assessment, remediation, monitoring actions in order to control the long-term compliance and re-cultivation of old waste storage depots. Provision based environmental liabilities are audited in every quarter using internal resources.

39. CONTINGENT LIABILITIES (CONTINUED)

Environmental matters (continued)

Environmental provisions (continued)

During 2019, we continued with soil remediation project at retail fuel stations. Also, dismantling, decontamination and disposal of tetraethyl lead installation in Rijeka Refinery was completed.

At 31 December 2019, INA, d.d. made environmental provisions in the amount of HRK 356 million, whereas the provisions at the Group level amounted to HRK 361 million, while at 31 December 2018, INA, d.d. made environmental provisions in the amount of HRK 408 million, whereas the provisions at the Group level amounted to HRK 412 million.

At 31 December 2019, contingencies at INA, d.d. was estimated at HRK 391 million and for INA Group level was estimated at HRK 599 million, while at 31 December 2018 contingencies at INA, d.d. was estimated at HRK 411 million and for INA Group level was estimated at HRK 620 million. The estimates were not recognised because the timing of the event is uncertain and there is no evidence of pollution.

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

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, before the Commercial Court in Zagreb, the plaintiffs claim compensation for damage in the amount of app HRK 60 million incurred due to ungrounded termination of negotiations. On 10 March 2016 the judgment was rendered and the plaintiff's claim was dismissed in its entirety. On 18 March 2016 the plaintiff filed an appeal against the judgment of the court of first instance. In its judgment rendered on 7 November 2018, the High Commercial Court of the Republic of Croatia rejected the plaintiff's appeal and confirmed the judgement of the court of first instance. Therefore, the proceedings are concluded with a judgment that is final and binding. On 10 January 2019 the plaintiffs filed a petition with the Supreme Court of the Republic of Croatia for extraordinary legal remedy (revision) against the final and binding judgment of the High Commercial Court.

EKO MEDIA d.o.o.

In September 2012 INA, d.d. entered into an agreement with company EKO MEDIA d.o.o. EKO MEDIA failed to regularly comply with its obligations. INA, d.d. terminated the agreement with EKO MEDIA d.o.o. at the beginning of 2014. On 19 December 2014 EKO MEDIA d.o.o. filed a lawsuit against INA, d.d. in which EKO MEDIA d.o.o. specified its claim in the amount of HRK 106 million. INA, d.d. filed its official reply to such EKO MEDIA's lawsuit and filed a counterclaim for the return of unjust enrichment and asked for the issuance of interim measure for prohibition of use of advertising boards. The first instance procedure is in progress and the court expert for finances delivered his opinion in which he determined the amount of the claim towards EKO MEDIA at the moment of termination of the agreement. At a hearing held at the end of 2018, it was ordered to conduct a financial expert evaluation in relation to the circumstance of lost profit. On January 16, 2020 the findings and the opinion of the court expert were received, which were delivered to the opposing party. The response thereto is currently being prepared.

39. CONTINGENT LIABILITIES (CONTINUED)

Litigation (continued)

LJUBLJANSKA BANKA

The claims of plaintiff Ljubljanska banka, Ljubljana, Slovenia against INA, d.d. in amount of HRK 60 million have arisen from two contracts of 1982 on the use of short-term foreign currency loan abroad which were concluded between INA, d.d. - Rafinerija nafte Rijeka and Ljubljanska banka - Osnovna banka Zagreb. The outcome of the procedure is still uncertain due to the complexity of the legal matter (claims for altered default interest). The Supreme Court has not decided on review to this date, so no legal actions were taken in 2019.

Belvedere cases (CLEOSTONE claim included)

In 2005 INA, d.d. and Belvedere d.d. concluded the Loan agreement on notarial insurance of the claim by establishing lien over the real estate of Belvedere d.d. for the purpose of ensuring loan repayment. Since the loan was not repaid, INA, d.d. initiated the procedure of real estate sale, and the real estate was sold to company Vila Larus d.o.o., whereby INA, d.d. collected HRK 24 million on behalf of principle amount and contractual interest rate.

The plaintiff initiated the proceeding to proclaim the real estate sale and purchase agreement as null and void, as well as the proceeding to cancel the enforceability clause on the Fiduciary Agreement. The first instance proceeding for the annulment of the agreement on the sale and purchase of real estate has been finalized in favour of INA, d.d. and upon an appeal filed by the plaintiff, the first instance decision became legally binding after the High Commercial Court of the Republic of Croatia rejected the appeal and confirmed the judgment. The Supreme Court of the Republic of Croatia has also rejected the plaintiff's review. The proceeding for the cancellation of the enforceability clause has been finalized in the first instance in favour of INA, d.d. After filing the appeal, the High Commercial Court rejected the appeal and affirmed the first instance ruling.

Belvedere – HRK 24 million, 018-11/17

The plaintiff has filed a claim with the Commercial Court in Zagreb, seeking reimbursement of funds received for the sale of "Hotel Belvedere", claiming that the sale of the real estate, encumbered by INA's liens – fiduciary, is illegal. The plaintiff alleges that INA, d.d. had no right to collect its claims by selling the real estate, because the plaintiff was in crisis at the moment of loan placement, so the loan was actually a loan substituting the capital which is settled in a bankruptcy proceeding as a lower payment priority claim. It is also stated that the notary public violated other legal regulations. The response to the claim has been submitted, in which the plaintiff's allegations have been contested, i.e. that the loan was not actually a loan substituting the capital. A preparatory hearing was held, as well as hearings at which witnesses were heard. The first instance court reached a judgment in favour of the plaintiff, against which an appeal was lodged. The appellate court has not yet reached a decision.

Belvedere – HRK 220 million, 018-14/17

The plaintiff has filed a claim with the Commercial Court in Zagreb, seeking reimbursement of damages, claiming that INA, d.d. has caused damage to the plaintiff by selling its real estate encumbered by INA's liens – fiduciary, whereby the plaintiff was prevented from continuing its business operations. The plaintiff claims that the damage is evident from the fact that the loan was actually a loan substituting the capital which is settled in a bankruptcy proceeding as a lower payment priority claim. INA, d.d. submitted its response to the lawsuit in which it contested all the plaintiff's allegations, both in relation to the grounds and the amount and stated that the collection of the concerned claims was in any case insured by a separate satisfaction right, granting the creditor in bankruptcy the right to a separate settlement.

39. CONTINGENT LIABILITIES (CONTINUED)

Litigation (continued)

Labour procedure against Energopetrol d.d.

At Municipal Court in Sarajevo, 449 plaintiffs filed labour lawsuits against Energopetrol for which, depending on the prospect of success as well as the legal basis of the claim, Energopetrol reserved amounts of 10% and 30% respectively of the value of the dispute.

The total principal amount of these disputes amounts to HRK 68 million. The lawsuits were filed in 2018/2019, and the plaintiffs are seeking payment of salary differences in line with the Branch Collective Agreement and payment based on discrimination for the workers who did not file lawsuits for the period 2015-2018.

The Company expects the plaintiff's attorney to specify the claims in the course of the procedure, in accordance with the findings of the financial expert. In 2019 only one preparatory hearing was held and the proceeding has been adjourned until final decision is reached in the case which represents the base for the payment of the salary differences. Other preparatory hearings are scheduled for the first quarter of 2020.

40. 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 25 and 27 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 35 and 36.

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 2019	31 December 2018	31 December 2019	31 December 2018
Debt:	3,160	2,091	2,935	1,892
Long term loans	-	4	-	-
Short term loans	3,160	2,087	2,935	1,892
Current portion of long-term borrowings	-	-	-	-
Cash and cash equivalents	(606)	(422)	(502)	(335)
Net debt	2,554	1,669	2,433	1,557
Equity	11,216	11,823	11,894	12,352
Equity and net debt	13,770	13,492	14,327	13,909
Gearing ratio	19%	12%	17%	11%

Debt is defined as short-term borrowings and credit lines (excluding derivatives and financial guarantee contracts), as described in notes 25 and 27.

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

40. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Categories of financial instruments

	Carrying amount			
	INA Group		INA, d.d.	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Financial assets				
Cash and cash equivalents	606	422	502	335
Loans and receivables	3,248	2,846	6,019	5,459
Non-current financial assets	607	479	607	479
Positive fair value of derivatives	51	113	51	113
Financial assets designated as at fair value through profit and loss	9	9	7	7
Financial liabilities				
Loans and borrowings	3,159	2,091	2,935	2,086
Lease liabilities	344	-	325	-
Trade payables	1,511	1,720	1,734	1,826
Negative fair value of derivatives	62	92	62	92

Financial risk management objectives

INA Group continuously monitors and manages financial risks. In accordance with internal procedures INA, d.d. and its consolidated subsidiaries manage and maintain commodity, foreign exchange and interest rate risk at an acceptable level, allowing 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 operations 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 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 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.

40. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Market risk

Commodity price risk management

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 USD at the current spot market price. Necessary natural gas quantities in 2019 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 internal procedures, for the purpose of hedging financial risk exposure on corporate and business operations level, INA, d.d. may use forward, swap and option instruments. In 2019, INA, d.d. entered into short-term forward swap transactions to hedge its exposure on changes in inventory levels and changes in pricing periods. The transactions were initiated to reduce exposures to potential fluctuations in prices over the period of decreasing inventories at the refineries, as well as to match the pricing period of purchased crude oil and crude products with the crude oil processing and refinery product retail pricing periods.

At 31 December 2019 and 31 December 2018, there is no fair value based on hedged transaction related to the price of the goods.

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 2019 and 31 December 2018 there were no outstanding cross-currency transactions.

40. 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 2019	31 December 2018	31 December 2019	31 December 2018
Currency EUR	2,440	1,630	608	375
Currency USD	1,206	1,044	986	786
	3,646	2,674	1,594	1,161

INA, d.d.

	Liabilities		Assets	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Currency EUR	2,189	1,410	1,044	728
Currency USD	1,175	994	929	739
	3,364	2,404	1,973	1,467

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 of HRK at 31 December 2019 (same sensitivity rate used for preceding period) 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 2019	31 December 2018	31 December 2019	31 December 2018
Loss	(22)	(26)	(183)	(126)
	(22)	(26)	(183)	(126)

INA, d.d.

	Currency USD Impact		Currency EUR Impact	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Loss	(25)	(26)	(115)	(68)
	(25)	(26)	(115)	(68)

40. 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 USD and EUR.

Interest rate risk management

INA Group is exposed to interest rate risk, since entities in INA Group generally borrow 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, there is a possibility of selecting the fixed interest rate for longer interest periods.

INA, d.d. in accordance with internal procedures 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 2019 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.

	INA Group		INA, d.d.	
	2019	2018	2019	2018
Short-term interest expense change	57	43	52	39
Long-term interest expense change	7	3	7	3
Total change:	64	46	59	42

If interest rates would be 200 basis points higher, INA Group's interest expenses in 2019 would increase by HRK 63 million, while with a change of 50 basis points the increase would be HRK 16 million (in 2018: increase by HRK 46 million had the interest rates been 200 basis points higher, and by HRK 11 million had the interest rates been 50 basis points higher).

At the same time INA, d.d.'s interest expenses in 2019 would increase by HRK 59 million if interest rates had been 200 basis points higher, while the increase would be HRK 15 million with a change of 50 basis points (2018: increase by HRK 42 million had the interest rates been 200 basis points higher, and by HRK 10 million had the interest rates been 50 basis points higher). Equivalent decrease of interest rates would result in decreased interest expenses by equal amounts.

40. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Other price risks

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 at 31 December 2019 would have been unaffected as the equity investments are classified as non-current financial assets; and
- other equity reserves of INA, d.d. would increase by HRK 56 million as a result of the changes in fair value of non-current financial assets.

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 internal procedures, measures are taken as a precaution against the risk of default. 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 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 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 customers are continuously monitored to mitigate the risk of default (see note 21).

INA Group transacts with a large number of customers 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, provided collaterals 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.

40. 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 2019, INA Group had contracted and available short-term credit lines amounting to HRK 2,569 million (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 and available long-term credit lines amounting to HRK 2,659 million (CNB middle rate).

Based on business needs and industry 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 2019, INA Group had contracted and available short-term credit facilities for financing crude oil and oil products purchase amounting to USD 1,300 million.

For details of the main external sources of funding for INA Group, see note 25 and 27.

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 different funding opportunities with other creditors as well.

40. 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 Group and INA, d.d. and 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 principal and interest cash flows.

INA Group

	Less than 1 month	1 - 12 months	1 - 5 years	5+ years	Total
31 December 2019					
Non-interest bearing	1,634	505	34	2	2,175
Interest bearing	2,029	1,203	224	51	3,507
	3,663	1,708	258	53	5,682
31 December 2018					
Non-interest bearing	1,718	598	36	3	2,355
Interest bearing	1,340	755	4	-	2,099
	3,058	1,353	40	3	4,454

INA, d.d.

	Less than 1 month	1 - 12 months	1 - 5 years	5+ years	Total
31 December 2019					
Non-interest bearing	1,404	441	32	1	1,878
Interest bearing	2,029	1,281	308	133	3,751
	3,433	1,722	340	134	5,629
31 December 2018					
Non-interest bearing	1,500	533	36	3	2,072
Interest bearing	1,339	753	-	-	2,092
	2,839	1,286	36	3	4,164

Non-interest bearing liabilities of INA, d.d. due in a period of less than one month consist mainly of trade accounts payable in the amount of HRK 1,089 million in 2019 (2018: HRK 1,242 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 borrowings, long-term borrowings and leases.

40. 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 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.

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).

40. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Fair value of financial instruments (continued)

Fair value measurements recognized in the statement of financial position

INA GROUP and INA, d.d.

	31 December 2019			
	Level 1	Level 2	Level 3	Total
Financial assets at fair value				
Non-current financial assets*	559	-	-	559
Marketable securities	39	-	-	39
Positive fair value of derivatives	-	51	-	51
Financial liabilities at fair value				
Negative fair value of derivatives	-	62	-	62
31 December 2018				
	Level 1	Level 2	Level 3	Total
Financial assets at fair value				
Non-current financial assets*	430	-	-	430
Marketable securities	27	-	-	27
Positive fair value of derivatives	-	113	-	113
Financial liabilities at fair value				
Negative fair value of derivatives	-	92	-	92

* only non-current financial assets at fair value are presented in tables above, the remaining equity instruments classified as non-current financial assets in total amount of HRK 48 million are measured at cost (2018: HRK 48 million) and therefore not included in tables above.

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

(a) Financial instruments in level 1

The fair value of financial instruments included in Level 1 comprise JANAF shares equity investments classified as non-current financial assets and marketable securities that are based on quoted market prices. A market is considered as active if quoted prices are current 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 based on actual historic quotations from Platts and market forward quotations of the underlying commodities.
- The fair value of forward foreign exchange contracts has been determined based on 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.

41. ACQUISITION OF ENI CROATIA B.V.

<u>INA Adria B.V.</u>	<u>Headquarters</u>	<u>Principal activity</u>	<u>Date of acquisition</u>	<u>Proportion of shares acquired (%)</u>	<u>Consideration transferred</u>
	Amsterdam, Netherlands	Support activities for petroleum and natural gas extraction	15 November 2018	100.0%	-

On 15 November 2018, by executing the Share Transfer Deed, INA-Industrija nafte d.d. became the sole shareholder of ENI Croatia B.V. and subsequently the 100% owner of Croatia's offshore areas Northern Adriatic and Marica. As a result, the Group recognized gain on acquisition in amount of HRK 291 million as other operating income which mainly relates to decommissioning liability taken over in the acquisition and which will be mainly offset by the unwinding of discount impact of such liability through time.

The fair values of the identifiable assets and liabilities of ENI Croatia B.V. as the date of acquisition were as follows:

Total identifiable net assets acquired	<u>556</u>
Gain on acquisition	<u>(291)</u>
Total consideration	<u>265</u>

42. SUBSEQUENT EVENTS

No events or transactions have occurred since 31 December 2019 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 or the Group'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 and the Group.

INA - INDUSTRIJA NAFTE, d.d.

Notes to the financial statements (continued)

For the year ended 31 December 2019

(all amounts are presented in HRK millions)

43. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Management Board and authorised for issue on 11 March 2020.

Signed on behalf of the Company and the Group on 11 March 2020 by:


Sándor Fasimon, President of the Management Board of INA, d.d.



Niko Dalić, member of the Management Board



Ákos Székely, member of the Management Board



Ivan Krešić, member of the Management Board



Davor Mayer, member of the Management Board



Zsolt Pethő, member of the Management Board





**REPORT ON COMPANY AND
INA GROUP STATUS FOR
JANUARY- DECEMBER 2019**

Zagreb, March, 2020

INA Group and INA, d.d. financial results 2019

This report contains parts of unaudited financial statements and is based on unaudited numbers for the period ending 31 December 2019 as prepared by the management in accordance with the International Financial Reporting Standards.

INA Group	2018		2019		%	
	HRK mln	USD mln(4)	HRK mln	USD mln(4)	HRK	USD
Net sales revenues*	22,349	3,560	22,597	3,412	1	(4)
EBITDA (1)	3,489	556	2,859	432	(18)	(22)
EBITDA excl. special items (2)	3,291	524	2,859	432	(13)	(18)
CCS EBITDA excl. special items	3,116	496	2,897	437	(7)	(12)
Profit from operations	1,687	269	725	109	(57)	(59)
Profit from operations excl. special items (2)	1,489	237	1,007	152	(32)	(36)
CCS Profit from operations excl. special items	1,314	209	1,046	158	(20)	(24)
Net loss from financial activities	(167)	(27)	(76)	(11)	(54)	(59)
Profit for the period attributable to Owners of the Company	1,178	188	486	73	(59)	(61)
Profit for the period excl. special items (2)	980	156	768	116	(22)	(26)
Simplified Free Cash Flow (3)	1,299	207	747	113	(42)	(45)
Net operating cash flow	2,831	451	2,862	432	1	(4)
Earnings per share						
Basic and diluted earnings per share (HRK per share)	117.8	18.8	48.6	7.3	(59)	(61)
Net debt	1,642	254	2,554	384	56	51
Net gearing (%)	12.2		18.5			
CAPEX total	1,817	289	2,150	325	18	12
Domestic	1,587	253	1,860	281	17	11
International	230	37	290	44	26	19

INA, d.d.	2018		2019		%	
	HRK mln	USD mln(4)	HRK mln	USD mln(4)	HRK	USD
Net sales revenues*	21,070	3,356	21,096	3,187	0	(5)
EBITDA (1)	3,041	484	2,599	393	(15)	(19)
EBITDA excl. special items (2)	2,822	449	2,599	393	(8)	(13)
Profit from operations	1,353	216	774	117	(43)	(46)
Profit from operations excl. special items (2)	1,134	181	915	138	(19)	(24)
Net income from financial activities	304	48	18	3	(94)	(94)
Profit for the period attributable to Owners of the Company	1,334	212	656	99	(51)	(53)
Profit for the period excl. special items (2)	1,115	178	797	120	(28)	(33)
Net operating cash flow	2,971	473	2,668	403	(10)	(15)
Earnings per share						
Basic and diluted earnings per share (HRK per share)	133.4	21.2	65.6	9.9	(51)	(53)
Net debt	1,557	241	2,433	366	56	52
Net gearing (%)	11.2		17.0			
CAPEX	1,675	267	1,950	294	16	10

* Related to Revenue from contracts with customers

(1) EBITDA = EBIT + Depreciation, amortization and impairment (net)

(2) INA Group 2018 result negatively impacted by HRK (93) mln of net impact of severance payments and related provisions together with positive impact of HRK 291 mln of gain on INAgip acquisition; 2019 result was negatively impacted by HRK (282) mln impairment of assets - Croatian gas fields; INA, d.d. 2018 result negatively impacted by HRK (72) mln of net impact of severance payments and related provisions together with positive impact of HRK 291 mln of gain on INAgip acquisition; 2019 result was negatively impacted by HRK (141) mln impairment of assets - Croatian gas fields

(3) Simplified free cash flow = CCS EBITDA excluding special items - CAPEX

(4) In converting HRK figures into US Dollars, the following average CNB (HNB) rates were used: for Q4 2018 – 6.50 HRK/USD; Q4 2019 – 6.72 HRK/USD; for Q1-Q4 2018 – 6.28 HRK/USD; for Q1-Q4 2019 – 6.63 HRK/USD; as at 31 December 2018 – 6.47 HRK/USD; as at 31 December 2019 – 6.65 HRK/USD

INA Group sales revenues amounted to HRK 22,597 million in 2019, a stable performance compared to 2018, despite the more challenging external environment. CCS EBITDA excluding special items came in at HRK 2,897 million in 2019, a decrease of 7% compared to 2018, mainly due to the 10% decline in Brent crude price.

Exploration and Production revenues and EBITDA excluding special items decreased in 2019 by 11% and 22% respectively, on the back of 9% lower realized hydrocarbon prices and a 3% decline in hydrocarbon production. Overall production volumes were supported by higher crude oil production in Egypt, which was more than offset by the natural decline on Croatian fields, especially on gas fields. Refining and Marketing including Consumer Services and Retail CCS EBITDA excluding special items amounted to HRK 557 million in 2019, increasing by HRK 271 million year-on-year, while Simplified Free Cash Flow of the segment was negative HRK 779 million in 2019 due to the negative Refining and Marketing cash flow. The main events of the year for Refining included a large scale turnaround completed in May and also the final investment decision on Rijeka Refinery Upgrade Project, the largest investment in the recent history of INA. At the same time sales were stable, utilizing market conditions. Higher retail volumes (+ 3%) resulted from the improving performance in Croatia and the network expansion in Montenegro.

CAPEX was higher by 18% in 2019 year-on-year and amounted to HRK 2,150 million, with increased investments in Refining and Marketing. Net gearing amounted to 18.5% with net debt standing at HRK 2,554 million at the end of 2019.

Management discussion

Exploration and Production*

INA GROUP	2018		2019		%	
	HRK mln	USD mln	HRK mln	USD mln	HRK	USD
Net sales revenues	4,187	667	3,745	565	(11)	(15)
EBITDA	3,287	523	2,356	355	(28)	(32)
EBITDA excl. special items **	3,014	480	2,356	355	(22)	(26)
Profit from operations	2,256	359	1,149	173	(49)	(52)
Profit from operation excl. special items **	1,983	316	1,431	216	(28)	(32)
Simplified Free Cash Flow***	2,365	377	1,669	252	(29)	(33)
CAPEX	649	103	687	104	6	0

INA, D.D.	2018		2019		%	
	HRK mln	USD mln	HRK mln	USD mln	HRK	USD
Net sales revenues	4,158	662	3,636	548	(13)	(17)
EBITDA	3,076	490	2,215	334	(28)	(32)
EBITDA excl. special items**	2,803	446	2,215	334	(21)	(25)
Profit from operations	2,013	321	1,211	183	(40)	(43)
Profit from operation excl. special items **	1,740	277	1,352	204	(22)	(26)
CAPEX	644	103	665	100	3	(2)

* Exploration and Production refers to the Upstream of INA, d.d. and following subsidiaries: Adriagas S.r.l. Milano, INA Adria BV, INA Jadran d.o.o.

** In 2018, INA Group result was positively impacted by HRK 291 mln of special items related to revenues from gain on INAgip acquisition and HRK (18) mln of severance payment and related provision; 2019 result was negatively impacted by HRK (282) mln impairment of assets - Croatian gas fields; INA, d.d. result was negatively impacted by HRK (141) mln impairment of assets - Croatian gas fields

*** Simplified free cash flow = EBITDA excluding special items – CAPEX

Hydrocarbon production (boe/d)	2018	2019	%
Crude oil production	14,550	14,479	(1)
Croatia	12,443	12,097	(3)
Egypt	1,496	1,783	19
Angola	611	599	(2)
Natural gas production	18,926	18,134	(4)
Croatia - offshore	6,507	6,094	(6)
Croatia - onshore	12,419	12,040	(3)
Condensate (boe/d)	1,441	1,283	(11)
Total hydrocarbon production	34,917	33,896	(3)

Average realised hydrocarbon price	2018	2019	%
Total hydrocarbon price (USD/boe)*	53	48	(9)

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

2019 vs. 2018

Key drivers

- Brent price lower by 10% negatively impacting crude oil and condensate sales revenues by HRK 257 million
- Domestic crude oil production lower as a result of natural decline mainly on Đeletovci and Stružec fields offsetting the positive effect of additional development, well optimization and EOR project
- International crude oil production:
 - Egypt: Higher production supported by workover and drilling activities
 - Angola: Lower volumes reflecting natural production decline and various technical limitations on Block 3/05
- Natural gas production decreased as a result of:
 - Lower offshore production driven by natural decline and increased water cut on Izabela
 - Lower onshore production mainly due to reservoir maturity resulting in increased water cut on the main gas fields (Deep Podravina and Vučkovec together with Stružec)
- Condensate production lower due to:
 - Natural decline and increased water cut on main gas condensate fields

Capital expenditures

2019 (HRK mln)	Croatia	Egypt	Angola
Exploration	42	66	-
Development	279	94	8
Other	198	-	-
TOTAL	519	160	8

- Higher investment level compared to 2018 focusing on exploration drilling and development activities in Egypt
- Total of 64 well workovers performed on onshore Croatia with additional six well workovers on EOR Ivanić and Žutica project
- Drava-02 exploration program -1st phase: Commercial gas discovery was declared on Severovci-1 well in July.
- Jankovac-1 well was drilled in December. The 1st exploration phase work program will be finished in 2020. In December the Government of Croatia announced a decision approving INA's entrance into the 2nd exploration phase
- 2nd Croatia onshore bid round: in August INA was awarded licenses for two exploration blocks: DR-03 and SZH-01
- 3rd Croatia onshore bid round: in December INA was awarded licence for exploration block DR-14
- Selnica-1 East exploration well drilling started in December
- Egypt: Exploration well Rizk-2D drilled in May was put into production in December; on North Bahariya concession 15 development wells were drilled, while on Ras Qattara concession three development wells were drilled

Refining and Marketing, including Consumer services and Retail*

INA GROUP	2018		2019		%	
	HRK mln	USD mln	HRK mln	USD mln	HRK	USD
Net sales revenues	21,420	3,411	21,530	3,247	1	(5)
EBITDA	419	67	519	78	24	16
EBITDA excl. special items**	461	73	519	78	12	7
CCS EBITDA excl. special items**	286	46	557	84	95	83
Loss from operations	(158)	(25)	(229)	(35)	45	40
Loss from operations excl. special items**	(116)	(18)	(229)	(35)	98	94
CCS loss from operations	(291)	(46)	(191)	(29)	(34)	(37)
Simplified Free Cash Flow***	(784)	(125)	(779)	(117)	(1)	(6)
CAPEX	1,070	170	1,336	202	25	19

INA, d.d.	2018		2019		%	
	HRK mln	USD mln	HRK mln	USD mln	HRK	USD
Net sales revenues	20,696	3,296	20,673	3,118	(0)	(5)
EBITDA	331	53	390	59	18	11
EBITDA excl. special items**	375	60	390	59	4	(2)
Loss from operations	(223)	(36)	(329)	(50)	48	39
Loss from operations excl. special items**	(179)	(28)	(329)	(50)	84	79
CAPEX	982	156	1,205	182	23	17

*Refers to Refining and Marketing including Consumer Services and Retail INA, d.d. and the following subsidiaries: INA Maziva d.o.o., INA Slovenija d.o.o., HoldINA d.o.o. Sarajevo, INA Crna Gora d.o.o., INA d.o.o. Beograd, INA Kosovo d.o.o., Petrol d.d., Energopetrol d.d., INA MALOPRODAJNI SERVISI d.o.o., Croplin d.o.o.

** In 2018 Operating profit and EBITDA were negatively impacted by HRK (42) mln of special items related to severance payment and related provision

*** Simplified free cash flow = CCS EBITDA excluding special items – CAPEX

	2018	2019	%
Refining processing (kt)			
Domestic crude oil	552	516	(7)
Imported crude oil	2,965	2,032	(31)
Condensate	59	38	(36)
Other feedstock	613	550	(10)
Total refining throughput	4,189	3,136	(25)
Refining production (kt)			
LPG	215	157	(27)
Naphtha	39	14	(64)
Gasoline	979	775	(21)
Kerosene	192	162	(16)
Diesel	1,406	1,096	(22)
Heating oil	144	89	(38)
Fuel oil	622	371	(40)
Other products*	137	121	(12)
Total	3,734	2,785	(25)
Refining loss	55	44	(20)
Own consumption	400	307	(23)
Total refining production	4,189	3,136	(25)
Refined product sales by country (kt)			
Croatia	1,839	2,056	12
B&H	701	769	10
Slovenia	77	64	(17)
Italy	356	309	(13)
Other markets	1,358	1,206	(11)
Total	4,331	4,404	2
Refined product sales by product (kt)			
LPG	267	248	(7)
Naphtha	40	13	(68)
Gasoline	862	848	(2)
Kerosene	201	220	9
Diesel	1,926	2,135	11
Heating oil	159	128	(19)
Fuel oil	579	364	(37)
Bitumen	60	74	23
Other products**	237	374	58
Total	4,331	4,404	2
o/w consumer services and Retail segment sales	1,082	1,115	3
Total natural gas sales (mln m3)	1,360	1,271	(7)
Total number of Service stations	500	511	2

*Other products = Benzene concentrate, liquid sulphur, coke, motor oils, industrial lubricants, other intermediates

**Other products = Benzene concentrate, heavy naphtha, vacuum gas oil, liquid sulphur, coke, crude oil, motor oils, industrial lubricants

2019 vs. 2018

Key drivers

- Asset structure and production overcapacity with two refineries compared to captive market demand leading to negative refining cash flow
- A deteriorating headline margin in refining: lower Brent price (-7 USD/bbl), decreased gasoline (-14 USD/t), fuel oil (-16 USD/t), LPG (-45 USD/t) crack spreads, and higher diesel crack spread (+2 USD/t)
- Significantly higher sales on core markets, Croatia (+217 kt) and B&H market (+68 kt) as a result of higher demand, stronger wholesale focus and lack of supply from the Bosanski Brod Refinery. INA's fuel position on captive markets has strengthened and represents a sales growth of +15% in diesel sales and +13% in gasoline sales
- Overall lower processing is mainly caused by the Jan-May Rijeka turnaround but refinery yields have improved driven by processing of lighter crudes
- Higher motor fuel import volumes (+633 kt) focused on meeting regional market demand
- Sales of domestic crude in Q4 through the Janaf pipeline
- Total Retail sales volumes were at 1,115 kt (+3%) with significant contribution coming from the Croatian (+12 kt) and Montenegro markets (+17 kt) as a result of reconstructions, modernizations and new service stations openings
- Non-fuel margin increased by 17%, reflecting continuous expansion in consumer goods and services

Capital expenditures

- Refining and Marketing CAPEX significantly increased and amounted to HRK 1,071 million compared to HRK 857 million in Q1-Q4 2018, mainly driven by the Rijeka Refinery turnaround and Propane-Propylene Splitter project:
 - The turnaround was completed and Rijeka Refinery started processing at the beginning of May
 - Final Investment decision (FID) was obtained for the Rijeka Refinery Upgrade Project and contract to start implementation works was signed
 - Activities on the Propane-Propylene Splitter project related to civil and mechanical works on site are in progress and reached the final phase of implementation where pre-commissioning activities, operating instructions and trainings for operators started and final connections of piping and insulation are ongoing
- Consumer Services and Retail CAPEX amounted to HRK 265 million compared to HRK 213 million in 2018 due to:
 - Various investment projects aimed at network development, including greenfield constructions, new service station rentals, existing service station reconstructions and modernizations, together with investments in car wash, facilities upgrade and other improvements of consumer services
 - Expanding the non-fuel offer through "Fresh Corner" concept with multiple projects executed, ongoing or in preparation

Corporate and other

INA GROUP	2018		2019		%	
	HRK mln	USD mln	HRK mln	USD mln	HRK	USD
Net sales revenues	1,829	291	2,139	323	17	11
EBITDA	(88)	(14)	26	4	n.a.	n.a.
EBITDA excl. special items*	(55)	(9)	26	4	n.a.	n.a.
Loss from operations	(282)	(45)	(154)	(23)	(45)	(49)
Loss from operations excl. special items*	(249)	(40)	(154)	(23)	(38)	(43)
CAPEX	159	25	181	27	14	8

INA, d.d.	2018		2019		%	
	HRK mln	USD mln	HRK mln	USD mln	HRK	USD
Net sales revenues	137	22	324	49	136	123
EBITDA	(298)	(47)	(31)	(5)	(90)	(89)
EBITDA excl. special items*	(289)	(46)	(31)	(5)	(89)	(89)
Loss from operations	(369)	(59)	(133)	(20)	(64)	(66)
Loss from operations excl. special items*	(360)	(57)	(133)	(20)	(63)	(65)
CAPEX	49	8	80	12	63	58

* In 2018 INA Group result was negatively impacted by HRK (33) mln of special items related to severance payment and net provisions; In 2018 INA Group result was negatively impacted by HRK (9) mln of special items related to severance payment and net provisions

Main external parameters

Crude oil prices	2018	2019	%
Brent dtd (USD/bbl)	71	64	(9.9)
Brent-Ural spread (USD/bbl)	1.09	0.43	(60.6)
FOB MED Products prices and crack spreads			
Gasoline - premium unleaded 10 ppm (USD/t)	662	595	(10.1)
Diesel – ULSD 10 ppm (USD/t)	638	586	(8.2)
Fuel oil 3.5% (USD/t)	394	324	(17.8)
LPG (USD/t)	552	454	(17.8)
Crack spread – gasoline (USD/t)	123	109	(11.4)
Crack spread – diesel (USD/t)	98	100	2.0
Crack spread – fuel oil 3.5% (USD/t)	(146)	(162)	11.0
Crack spread – LPG (USD/t)	13	(32)	n.a.
Indicative refining margins (USD/bbl)*	(0.03)	(0.81)	2,600
Foreign exchange			
HRK/USD average	6.28	6.63	5.6
HRK/USD closing	6.47	6.65	2.8
HRK/EUR average	7.41	7.44	0.4
HRK/EUR closing	7.42	7.44	0.3
3m USD LIBOR (%)	2.31	2.33	0.9
3m EURIBOR (%)	(0.32)	(0.36)	12.5

* Indicative refining margins based on 2016 Solomon yields, dated Ural price used for all feedstock

INA Group – Consolidated Statement of Profit or Loss

For the period ended 31 December 2018 and 2019 (in HRK millions)

	2018	2019	%
Revenue from contracts with customers	22,349	22,597	1
Capitalised value of own performance	416	466	12
Other operating income	529	234	(56)
Total operating income	23,294	23,297	0
Changes in inventories of finished products and work in progress	365	(160)	n.a.
Costs of raw materials and consumables	(12,033)	(8,460)	(30)
Depreciation, amortisation and impairment (net)	(1,802)	(2,134)	18
Other material costs	(2,188)	(2,125)	(3)
Service costs	(569)	(626)	10
Staff costs	(1,927)	(1,970)	2
Costs of other goods sold	(3,605)	(7,114)	97
Impairment charges (net)	165	(109)	n.a.
Provision for charges and risks (net)	(13)	126	n.a.
Operating expenses	(21,607)	(22,572)	4
Profit/(loss) from operations	1,687	725	(57)
Finance income	54	104	93
Finance costs	(221)	(180)	(19)
Net loss/(profit) from financial activities	(167)	(76)	(54)
Share of net profit of joint ventures accounted for using the equity method	-	10	n.a.
Profit before tax	1,520	659	(57)
Income tax expense	(343)	(170)	(50)
Profit/(loss) for the period	1,177	489	(58)
Attributable to:			
Owners of the Company	1,178	486	(59)
Non-controlling interests	(1)	3	n.a.
	1,177	489	(58)
Earnings per share			
Basic and diluted earnings per share (HRK per share)	117.8	48.6	(59)

INA, d.d. – Non-consolidated Statement of Profit or Loss

For the period ended 31 December 2018 and 2019 (in HRK millions)

	2018	2019	%
Revenue from contracts with customers	21,070	21,096	0
Capitalised value of own performance	14	14	(0)
Other operating income	335	320	(4)
Total operating income	21,419	21,430	0
Changes in inventories of finished products and work in progress	364	(179)	n.a.
Cost of raw materials and consumables	(11,819)	(8,348)	(29)
Depreciation, amortisation and impairment (net)	(1,688)	(1,825)	8
Other material costs	(2,162)	(1,927)	(11)
Service costs	(787)	(859)	9
Staff costs	(950)	(918)	(3)
Cost of other goods sold	(3,169)	(6,577)	108
Impairment charges (net)	162	(79)	n.a.
Provision for charges and risks (net)	(17)	56	n.a.
Operating expenses	(20,066)	(20,656)	3
Profit/(loss) from operations	1,353	774	(43)
Finance income	505	173	(66)
Finance costs	(201)	(155)	(23)
Net income/(loss) from financial activities	304	18	(94)
Share of net profit of joint ventures accounted for using the equity method	-	10	n.a.
Profit/(loss) before tax	1,657	802	(52)
Income tax expense	(323)	(146)	(55)
Profit/(loss) for the period	1,334	656	(51)
Earnings per share			
Basic and diluted earnings per share (kunas per share)	133.4	65.6	(51)

INA Group – Consolidated Statement of Financial Position

At 31 December 2018 and 2019 (in HRK millions)

	31 December 2018	31 December 2019	%
Assets			
Non-current assets			
Intangible assets	644	635	(1)
Property, plant and equipment	12,284	12,567	2
Property, plant and equipment - ROU	-	342	n.a.
Investments in associates and joint venture	150	160	7
Other investments	16	17	6
Long-term receivables and other assets	732	898	23
Deferred tax	1,199	1,035	(14)
Long term marketable securities	-	39	n.a.
Non-current financial assets	479	607	27
Total non-current assets	15,504	16,300	5
Current assets			
Inventories	2,645	2,299	(13)
Trade receivables, net	1,837	2,026	10
Other receivables	121	143	18
Corporative Income tax receivables	8	16	100
Marketable securities	27	-	n.a.
Other current assets	174	136	(22)
Cash and cash equivalents	422	606	44
Current assets	5,234	5,226	(0)
Assets held for sale	4	6	50
Total current assets	5,238	5,232	(0)
Total assets	20,742	21,532	4
Equity and liabilities			
Capital and reserves			
Share capital	9,000	9,000	-
Legal reserves	99	166	68
Fair value reserves	135	241	79
Other reserves	1,544	1,590	3
Retained earnings	1,036	207	(80)
Equity attributable to equity holders of the parent	11,814	11,204	(5)
Non-controlling interests	9	12	33
Total equity	11,823	11,216	(5)
Non-current liabilities			
Long-term loans	4	-	n.a.
Long-term lease liabilities	-	276	n.a.
Other non-current liabilities	45	40	(11)
Employee benefits obligation	77	70	(9)
Provisions	3,462	3,716	7
Deferred tax liability	14	15	7
Total non-current liabilities	3,602	4,117	14
Current liabilities			
Bank loans	1,962	2,825	44
Current portion of long-term loans	125	335	168
Current portion of long-term lease liabilities	-	68	n.a.
Trade payables	1,720	1,511	(12)
Taxes and contributions	612	650	6
Other current liabilities	590	624	6
Employee benefits obligation	5	7	40
Provisions	303	179	(41)
Total current liabilities	5,317	6,199	17
Total liabilities	8,919	10,316	16
Total equity and liabilities	20,742	21,532	4

INA, d.d. – Non-consolidated Statement of Financial Position

At 31 December 2018 and 2019 (in HRK millions)

	31 December 2018	31 December 2019	%
Assets			
Non-current assets			
Intangible assets	431	420	(3)
Property, plant and equipment	10,586	10,960	4
Property, plant and equipment - ROU	-	529	n.a.
Investment in subsidiaries	1,960	2,089	7
Investments in associates and joint ventures	150	160	7
Other investments	752	745	(1)
Long-term receivables and other assets	743	902	21
Deferred tax	1,089	929	(15)
Long-term marketable securities	-	39	n.a.
Non-current financial assets	479	607	27
Total non-current assets	16,190	17,380	7
Current assets			
Inventories	2,351	2,025	(14)
Intercompany receivables	256	298	16
Trade receivables, net	1,490	1,663	12
Other receivables	73	86	18
Other current assets	165	132	(20)
Marketable securities	27	-	n.a.
Cash and cash equivalents	335	502	50
Total current assets	4,697	4,706	0
Total assets	20,887	22,086	6
Equity and liabilities			
Capital and reserves			
Share capital	9,000	9,000	0
Legal reserves	99	166	68
Fair value reserves	135	241	79
Other reserves	1,184	1,214	3
Retained earnings / (Deficit)	1,934	1,273	(34)
Total equity	12,352	11,894	(4)
Non-current liabilities			
Long-term lease liabilities	-	441	n.a.
Other non-current liabilities	44	39	(11)
Employee benefits obligation	33	19	(42)
Provisions	3,599	3,874	8
Total non-current liabilities	3,676	4,373	19
Current liabilities			
Bank loans	1,767	2,600	47
Current portion of long-term loans	125	335	168
Current portion of long-term lease liabilities	-	90	n.a.
Intercompany payables	584	645	10
Trade payables	1,242	1,089	(12)
Taxes and contributions	514	554	8
Other current liabilities	395	387	(2)
Employee benefits obligation	3	3	0
Provisions	229	116	(49)
Total current liabilities	4,859	5,819	20
Total liabilities	8,535	10,192	19
Total equity and liabilities	20,887	22,086	6

INA Group – Consolidated Cash Flow Statement (Indirect method)

For the period ended 31 December 2018 and 2019 (in HRK millions)

	2018	2019	%
Profit for the period	1,177	489	(58)
Adjustments for:			
Depreciation, amortisation and impairment (net)	1,802	2,134	18
Tax expense recognised in income statement	343	170	(50)
Impairment charges (net)	(165)	109	n.a.
Loss/(Gain) on sale of property, plant and equipment	3	(11)	n.a.
Loss/(Gain) on sale of investments and shares	(291)	-	n.a.
Foreign exchange (gain)/loss	45	(29)	n.a.
Interest expense (net)	26	24	(8)
Share of loss of an associate and a joint venture	-	10	n.a.
Other finance (income)/expense recognised in profit	58	26	(55)
Decrease in provision	(23)	(135)	487
Decommissioning interests and other provision	62	49	(21)
Net (gain)/loss on derivative financial instruments and hedge transactions	96	8	(92)
Other non-cash items	(2)	(2)	0
Operating cash flow before working capital changes	3,131	2,842	(9)
Movements in working capital			
Decrease/(Increase) in inventories	(725)	322	n.a.
(Increase)/Decrease in receivables and prepayments	(278)	(362)	30
Increase in trade and other payables	764	101	(87)
Cash generated from operations	2,892	2,903	0
Taxes paid	(61)	(41)	(33)
Net cash inflow from operating activities	2,831	2,862	1
Cash flows used in investing activities			
Capital expenditures, exploration and development costs	(1,842)	(2,442)	33
Payment for intangible assets	(125)	(143)	14
Proceeds from sale of non-current assets	9	20	122
Acquisition of subsidiary (net)	(147)	-	n.a.
Investment in joint venture	(150)	-	n.a.
Investment in securities	-	(35)	n.a.
Dividends received from companies classified as non-current financial assets available for sale and from other companies	1	10	900
Interest received and other financial income	11	5	(55)
Loans and other investments (net)	1	42	4,100
Net cash used for investing activities	(2,242)	(2,543)	13
Cash flows from financing activities			
Change of long-term borrowings (net)	(122)	208	n.a.
Change in short-term borrowings (net)	376	823	119
Dividends paid	(812)	(1,250)	54
Repayment of lease liabilities	-	197	n.a.
Interest paid on long-term loans	(5)	(1)	(80)
Interest paid on short-term loans and other financing charges	(56)	(123)	120
Net cash from financing activities	(619)	(146)	(76)
Net increase/(decrease) in cash and cash equivalents	(30)	173	n.a.
At the beginning of the period	428	422	(1)
Effect of foreign exchange rate changes	24	6	(75)
Overdrafts	-	5	n.a.
Cash and cash equivalents in statement of financial position	422	606	44

INA, d.d. – Non-consolidated Cash Flow Statement (Indirect method)

For the period ended 31 December 2018 and 2019 (in HRK millions)

	2018	2019	%
Profit/(loss) for the period	1,334	656	(51)
Adjustments for:			
Depreciation, amortisation and impairment (net)	1,688	1,825	8
Tax expense recognized in income statement	323	146	(55)
Impairment charges (net)	(162)	79	n.a.
Loss/(gain) on sale of property, plant and equipment	(7)	(8)	14
Loss/(gain) on sale of investments and shares	-	-	n.a.
Income from capital increase of subsidiary	-	(112)	n.a.
Foreign exchange loss/(gain)	49	17	(65)
Interest expense /(gain) (net)	6	1	(83)
Income from reversal of impaired loans	(222)	-	n.a.
Income from reversal of impaired investment in subsidiaries	(111)	-	n.a.
Share of gain of an associate and a joint venture	-	(10)	n.a.
Other finance costs recognised in profit and loss	(85)	(84)	(1)
(Decrease)/increase in provisions	(20)	(64)	220
Decommissioning interests	56	50	(11)
Net (gain)/loss on derivative financial instruments and hedge transactions	96	8	(92)
Other non-cash items	4	-	n.a.
Operating cash flow before working capital changes	2,949	2,504	(15)
Movements in working capital			
(Increase)/decrease in inventories	(645)	230	n.a.
(Increase) /decrease in receivables and prepayments	(320)	(294)	(8)
(Decrease)/increase in trade and other payables	1,022	240	(77)
Cash generated from operations	3,006	2,680	(11)
Taxes paid	(35)	(12)	(66)
Net cash inflow from/ (used in) operating activities	2,971	2,668	(10)
Cash flows used in investing activities			
Capital expenditures, exploration and development costs	(1,726)	(1,822)	6
Payment for intangible assets	(120)	(128)	7
Proceeds from sale of non-current assets	8	12	50
Acquisition of subsidiary	(265)	(10)	(96)
Investment in joint venture	(150)	-	n.a.
Investment in securities	-	(39)	n.a.
Dividends received from companies classified as non-current financial assets and from other companies	1	10	900
Payments received from subsidiaries	1	1	0
Interest received and other financial income	51	29	(43)
Loans and other investments (net)	(250)	(193)	(23)
Net cash (used in)/generated from investing activities	(2,450)	(2,140)	(13)
Cash flows from financing activities			
Repayment of lease liabilities	-	(83)	n.a.
Change in long term borrowings (net)	(122)	208	n.a.
Change in short term borrowings (net)	416	885	113
Dividends paid	(812)	(1,250)	54
Finance lease repayments	-	-	n.a.
Interest paid on long-term loans	(5)	(1)	(80)
Other long-term liabilities, net	-	-	n.a.
Interest paid on short term loans and other interest charges	(50)	(123)	146
Net cash from financing activities	(573)	(364)	(36)
Net (decrease)/increase in cash and cash equivalents	(52)	164	n.a.
At the beginning of the period	364	335	(8)
Effect of foreign exchange rate changes	23	3	(87)
At the end of period	335	502	50

INA Group Summary Segmental Results of Operations

HRK mln	2018	2019	%
Net sales revenues			
Exploration and Production	4,187	3,745	(11)
Refining and Marketing including Consumer services and Retail	21,420	21,530	1
Corporate and Other	1,829	2,139	17
Intersegment transfers and consolidation adjustments	(5,087)	(4,817)	(5)
Total	22,349	22,597	1
EBITDA*			
Exploration and Production	3,287	2,356	(28)
Refining and Marketing including Consumer services and Retail	419	519	24
Corporate and Other	(88)	26	n.a.
Intersegment transfers and consolidation adjustments	(129)	(42)	(67)
Total	3,489	2,859	(18)
EBITDA excluding Special Items			
Exploration and Production	3,014	2,356	(22)
Refining and Marketing including Consumer services and Retail	461	519	12
Corporate and Other	(55)	26	n.a.
Intersegment transfers and consolidation adjustments	(129)	(42)	(67)
Total	3,291	2,859	(13)
Profit/(Loss) from operations			
Exploration and Production	2,256	1,149	(49)
Refining and Marketing including Consumer services and Retail	(158)	(229)	45
Corporate and Other	(282)	(154)	(45)
Intersegment transfers and consolidation adjustments	(129)	(41)	(68)
Total	1,687	725	(57)
Profit/(Loss) from operations excluding Special Items			
Exploration and Production	1,983	1,431	(28)
Refining and Marketing including Consumer services and Retail	(116)	(229)	98
Corporate and Other	(249)	(154)	(38)
Intersegment transfers and consolidation adjustments	(129)	(41)	(68)
Total	1,489	1,007	(32)
Property, plant and equipment			
Exploration and Production	5,228	4,932	(6)
Refining and Marketing including Consumer services and Retail	6,069	6,674	10
Corporate and Other	1,385	1,422	3
Intersegment transfers and consolidation adjustments	(398)	(461)	16
Total	12,284	12,567	2

* EBITDA = EBIT + Depreciation, amortization and impairment (net)

Intersegment transfers and consolidation adjustments

Intersegment transfers and consolidation adjustments indicates unrealised profit/loss on domestic crude oil being transferred from Exploration and Production to Refining and Marketing but still being kept on INA inventory as crude oil or finished / semi-finished product. Intersegment EBITDA effect on results in 2019 is HRK (42) million compared to HRK (129) million in 2018.

INA, d.d. Summary Segmental Results of Operations

HRK mln	2018	2019	%
Net sales revenues			
Exploration and Production	4,158	3,636	(13)
Refining and Marketing including Consumer services and Retail	20,696	20,673	(0)
Corporate and Other	137	324	136
Intersegment transfers and consolidation adjustments	(3,921)	(3,537)	(10)
Total	21,070	21,096	0
EBITDA*			
Exploration and Production	3,076	2,215	(28)
Refining and Marketing including Consumer services and Retail	331	390	18
Corporate and Other	(298)	(31)	(90)
Intersegment transfers and consolidation adjustments	(68)	25	n.a.
Total	3,041	2,599	(15)
EBITDA excluding Special Items			
Exploration and Production	2,803	2,215	(21)
Refining and Marketing including Consumer services and Retail	375	390	4
Corporate and Other	(289)	(31)	(89)
Intersegment transfers and consolidation adjustments	(68)	25	n.a.
Total	2,822	2,599	(8)
Profit/(Loss) from operations			
Exploration and Production	2,013	1,211	(40)
Refining and Marketing including Consumer services and Retail	(223)	(329)	48
Corporate and Other	(369)	(133)	(64)
Intersegment transfers and consolidation adjustments	(68)	25	n.a.
Total	1,353	774	(43)
Profit/(Loss) from operations excluding Special Items			
Exploration and Production	1,740	1,352	(22)
Refining and Marketing including Consumer services and Retail	(179)	(329)	84
Corporate and Other	(360)	(133)	(63)
Intersegment transfers and consolidation adjustments	(68)	25	n.a.
Total	1,134	915	(19)
Property, plant and equipment			
Exploration and Production	4,924	4,771	(3)
Refining and Marketing including Consumer services and Retail	5,414	5,901	9
Corporate and Other	248	288	16
Intersegment transfers and consolidation adjustments	-	-	n.a.
Total	10,586	10,960	4

* EBITDA = EBIT + Depreciation, amortization and impairment (net)

Financial overview

INA Group – Consolidated Statement of Profit or Loss

Revenue from contract with customers in 2019 amounted to HRK 22,597 million and is slightly above the 2018 level, triggered mainly by higher wholesale, lack of supply from Bosanski Brod Refinery and sales growth on captive market.

Costs of raw materials and consumables were 30% lower than 2018 level at HRK (8,460) million, resulting mainly from lower processing triggered by Rijeka Refinery turnaround from January until May.

Costs of other goods sold in 2019 recorded an increase of 97% compared to 2018 and amounted to HRK (7,114) million resulting from higher import of goods to meet market demand.

Other **operating costs** realized in 2019 include:

- Other material costs were lower by 3% mainly mining royalty and transportation costs related to lower production and lower Brent price and amounted to HRK (2,125) million,
- Service costs in the amount of HRK (626) million were 10% higher than on 2018 level concerning higher intellectual services, insurance premium costs and other service costs,
- Depreciation, amortisation and impairment (net) in the amount of HRK (2,134) million was 18% higher than previous year,
- Impairment and provisions had a positive effect in the amount of HRK 17 million and was lower than HRK 152 mln of positive impact in 2018.

Staff costs in the amount HRK (1,970) million were 2% higher compared to 2018.

Income tax expense in 2019 amounted to HRK (170) million compared to HRK (343) million income tax expense in 2018. Tax costs and deferred taxes during the interim period are calculated on the basis of actual results and the profit tax rate, 18% for the periods ended 31 December 2019 and 31 December 2018.

Net result from financial activities is negative in 2019 mainly as a result of:

- Net foreign exchange loss reached HRK (24) million in 2019, while in 2018 net foreign exchange loss reached HRK (38) million,
- Interest payable amounted to HRK (51) million and interest received to HRK 4 million in 2019, while in 2018 interest payable amounted to HRK (68) million and interest received to HRK 3 million,
- Other financial net expenses amounted to HRK (4) million and are lower compared to HRK (64) million financial expenses in 2018.

INA, d.d. – Non-consolidated Statement of Profit or Loss

Revenues from contract with customers in 2019 amounted to HRK 21,096 million and were in line with 2018 level, triggered mainly by higher wholesale, lack of supply from Bosanski Brod Refinery and sales growth on captive market.

Costs of raw materials and consumables were 29% lower than 2018 level at HRK (8,348) million, resulting mainly from lower processing triggered by Rijeka Refinery turnaround from January until May.

Costs of other goods sold in 2019 recorded an increase of 108% compared to 2018, and amounted to HRK (6,577) million resulting from higher sales of imported goods to meet market demand.

Other **operating costs** realized in 2019 include:

- Other material costs amounted to HRK (1,927) million, a 11% decrease compared to 2018 mainly related to royalty and transportation costs due to lower production and lower Brent price,
- Service costs in the amount of HRK (859) million increased 9% above the last year's level mostly due to higher intellectual services, insurance premium cost and other service costs,
- Depreciation, amortisation and impairment (net) in the amount of HRK (1,825) million was 8% higher compared to previous period,
- Impairment and provisions had a negative effect in the amount of HRK 23 million.

Staff costs in the amount HRK (918) million were slightly lower compared to 2018.

Net result from financial activities in 2019 is positive in the amount of HRK 18 million, compared to HRK 304 million of net financial profit in 2018.

INA Group – Consolidated Statement of financial position

As at 31 December 2019 INA Group **total assets** amounted to HRK 21,532 million, 4% higher compared to 31 December 2018.

In the period ended 31 December 2019, INA Group invested HRK 131 million in **intangible assets**. The effect of depreciation equals HRK 45 million.

In the period ended 31 December 2019, INA Group invested HRK 2,018 million in **property, plant and equipment**. The effect of depreciation reduced net book value of property, plant and equipment in amount of HRK 1,695 million.

Share capital as at 31 December 2019 amounted to HRK 9,000 million. There was no movements in the issued capital of the Company in either the current or the prior financial reporting.

Inventories amounted to HRK 2,299 million, and have decreased by 13% compared to 31 December 2018, mainly imported crude oil and semifinished products.

Trade receivables, net amounted to HRK 2,026 million which is 10% higher than 31 December 2018 related to domestic crude oil external sales.

As at 31 December 2019 **total liabilities** amounted to HRK 10,316 million, 16% higher compared to 31 December 2018. INA Group **net debt** amounted to HRK 2,554 million and increased compared to 31 December 2018. **Net gearing** increased from 12.2% as at 31 December 2018, to 18.5% as at 31 December 2019.

Trade payables decreased compared to 31 December 2018 by 12% to HRK 1,511 million due to lower payables for imported crude oil.

INA, d.d. – Non-consolidated Statement of financial position

Total assets of INA, d.d., as at 31 December 2019 amounted to HRK 22,086 million, 6% higher compared to 31 December 2018.

Property, plant and equipment amounted to HRK 10,960 million and were 4% higher than 31 December 2018 related to higher investment level.

Trade receivables, net outside of INA Group amounted to HRK 1,663 million and were 12% higher compared to 31 December 2018.

Total liabilities amounted to HRK 10,192 million and were 19% higher compared to 31 December 2018.

Net indebtedness of INA, d.d., amounted to HRK 2,433 million as at 31 December 2019 which is 56% higher compared to 31 December 2018. **Net gearing** increased from 11.2% as at 31 December 2018 to 17.0% as at 31 December 2019.

As at 31 December 2019 **trade payables** outside of INA Group amounted HRK 1,089 million, which is a decrease of 12% compared to the 31 December 2018.

INA Group – Consolidated Cash Flow Statement

The **operating cash flow before working capital changes** amounted to HRK 2,842 million in 2019 representing a decrease of HRK 289 million compared to 2018, which is in line with the change in EBITDA performance excluding non-cash items.

Movements in working capital affected the operating cash flow positively by HRK 61 million, due to:

- Decreased value of inventories in the amount of HRK 322 million mainly related to imported crude oil (HRK 67 million) and semifinished products (HRK 163 million),
- Increase in receivables in the amount of HRK (362) million mainly related to crude oil export,
- Increase in trade and other payables amounted to 101 HRK million.

Net cash used for investing activities amounted to HRK (2,543) million of outflows, compared to HRK (2,242) million outflows in 2018 mainly reflecting intensive investments in refining operations.

INA, d.d. – Non-consolidated Cash Flow Statement

The **operating cash flow before working capital changes** amounted to HRK 2,504 million in 2019, which is a decrease of 15% compared to the same period last year.

Movements in working capital affected the operating cash flow positively by HRK 176 million, primarily due to:

- Decreased value of inventories in the amount of HRK 230 million mainly related to imported crude and semifinished products,
- Increase in receivables and prepayments in the amount of HRK (294) million related to crude oil sales,
- Increase in trade and other payables in the amount of HRK 240 million.

In 2019 **taxes paid** influenced the operating cash flow negatively by HRK (12) million, while in 2018 taxes paid influenced the operating cash flow by HRK (35) million. All the factors above resulted in HRK 2,668 million net inflows from operating activities generated by INA, d.d. in 2019.

INA Group - Special items in operating profit and EBITDA (in HRK mln)

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. In 2019, the result was negatively impacted by HRK (282) millions of special items related to impairment of assets - Croatian gas fields, due to lower gas prices.

HRK mln	2018	2019
INA GROUP		
Total impact of special items on operating profit/(loss)	198	(282)
Total impact of special items on EBITDA	198	-
Exploration and Production		
Total impact of special items on operating profit/(loss)	273	(282)
Total impact of special items on EBITDA	273	-
Severance payment and net provisions	(18)	-
Gain on INAgip acquisition	291	-
Impairment of assets - Croatian gas fields	-	(282)
Refining and Marketing including Consumer Services and Retail		
Total impact of special items on operating (loss)	(42)	-
Total impact of special items on EBITDA	(42)	-
Severance payment and net provisions	(42)	-
Corporate functions		
Total impact of special items on operating (loss)	(33)	-
Total impact of special items on EBITDA	(33)	-
Severance payment and net provisions	(33)	-

INA, d.d. - Special items in operating profit and EBITDA (in HRK mln)

In addition to international account standards, international reporting standards and regulatory requests that 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. In 2019, the result was negatively impacted by HRK (141) millions of special items related to impairment of assets – Croatian gas fields.

HRK mln	2018	2019
INA, d.d.		
Total impact of special items on operating profit/(loss)	219	(141)
Total impact of special items on EBITDA	219	-
Exploration and production		
Total impact of special items on operating profit/(loss)	273	(141)
Total impact of special items on EBITDA	273	-
Severance payment and net provisions	(18)	-
Gain on INAgip acquisition	291	-
Impairment of assets - Croatian gas fields	-	(141)
Refining and Marketing including Consumer Services and Retail		
Total impact of special items on operating profit/(loss)	(45)	-
Total impact of special items on EBITDA	(45)	-
Severance payment and net provisions	(45)	-
Corporate functions		
Total impact of special items on operating profit/(loss)	(9)	-
Total impact of special items on EBITDA	(9)	-
Severance payment and net provisions	(9)	-

Financial instruments and risk management

Risk Management procedures of INA Group are described in detail in INA's Consolidated and separate Financial Statements for the year ended 31 December 2019.

As of 31 December 2019 INA Group had:

- Opened short-term forward commodity swap transactions to hedge its exposure to changes in pricing periods, inventory levels and refining margins.
- Contracted and available short-term credit lines amounting to HRK 2,569 million excluding overdrafts and trade financing credit lines established with the purpose to finance the purchase of crude oil and oil products.
- Contracted and available long-term credit lines amounting to HRK 2,659 million.

INA Group - Related party transactions

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 Q1-Q4 2019, INA Group entered into the following trading transactions with the following related parties:

INA Group	Sales of goods	Purchase of goods
HRK mln	31 December 2019	31 December 2019
Companies available for sale		
JANAF d.d. Zagreb	8	42
Strategic partner		
MOL Nyrt.	790	1,106
Companies controlled by strategic partner		
Tifon d.o.o.	609	9
MOL Serbia d.o.o.	78	-
MOL Slovenia d.o.o.	49	69
Slovnaft, a.s.	34	221
MOL Petrochemical	21	3
MOL Commodity Trading Kft.	19	134
MOL Austria Handels GmbH	17	-
MOL NORGE AS	2	-
Geoinform Kft.	2	-
MOL-LUB Kft.	1	4
IES-Italiana Energia e Servizi s.p.a.	-	7
FGSZ Zrt.	-	3

INA Group	Amounts owed from related parties	Amounts owed to related parties
HRK mln	31 December 2019	31 December 2019
Companies available for sale		
JANAF d.d. Zagreb	1	2
Strategic partner		
MOL Nyrt.	230	60
Companies controlled by strategic partner		
Tifon d.o.o.	70	3
MOL Commodity Trading Kft.	48	-
MOL Slovenia d.o.o.	5	6
MOL Serbia d.o.o.	1	-
Geoinform Kft.	1	-
Slovnaft, a.s.	-	36
MOL-LUB Kft.	-	1
IES S.p.A	-	1

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 2019 are disclosed below:

INA, d.d.	Sales of goods	Purchase of goods
HRK mln	31 December 2019	31 December 2019
Related companies		
Holdina d.o.o. Sarajevo	2,624	-
INA Crna Gora d.o.o. Podgorica	444	-
INA Slovenija d.o.o. Ljubljana	99	-
STSI, Integrirani tehnički servisi d.o.o.	27	757
INA Jadran d.o.o.*	22	67
CROSCO, naftni servisi d.o.o.	13	275
Plavi tim d.o.o.	9	72
INA MAZIVA d.o.o.	7	57
INA Maloprodajni servisi d.o.o.	7	305
INA Adria B.V.	4	120
Energopetrol d.d.	4	-
INA vatrogasni servisi d.o.o.	3	42
Top Računovodstvo Servisi d.o.o.	3	49
Hostin d.o.o.	1	-
Adrigas S.r.l. Milano	-	3
INA d.o.o. Banja Luka	-	1
INA Kosovo d.o.o.	-	1
Share in company as non-current financial assets		
JANAF d.d. Zagreb	6	24
Strategic partner		
MOL Nyrt	581	944
Companies controlled by strategic partner		
Tifon d.o.o.	607	9
MOL Serbia d.o.o.	78	-
MOL Slovenia d.o.o.	49	-
Slovnaft a.s.	34	219
MOL Petrochemicals Co Ltd	21	-
MOL Commodity Trading Kft.	19	134
MOL Austria	17	-
MOL Norge AS	2	-
Geoinform Kft.	1	-
IES Italiana Energia e Servizi S.p.A	-	7
FGSZ ZRT	-	3

INA, d.d.	Amounts owed from related parties	Amounts owed to related parties
HRK mln	31 December 2019	31 December 2019
Related companies		
Holdina d.o.o. Sarajevo	203	1
INA Crna Gora d.o.o. Podgorica	52	-
CROSCO, naftni servisi d.o.o.	14	59
INA Slovenija d.o.o. Ljubljana	11	-
STSI, Integrirani tehnički servisi d.o.o.	9	199
INA MAZIVA d.o.o.	3	9
Plavi tim d.o.o.	3	16
INA Maloprodajni servisi d.o.o.	3	38
INA Jadran d.o.o.*	2	14
Top Računovodstvo Servisi d.o.o.	2	-
INA Adria B.V.*	1	16
INA vatrogasni servisi d.o.o.	-	11
Share in company as non-current financial assets		
JANAF d.d. Zagreb	-	2
Strategic partner		
MOL Nyrt.	198	43
Companies controlled by strategic partner		
Tifon d.o.o.	70	3
MOL Commodity Trading Kft.	48	49
MOL Slovenia d.o.o.	5	5
MOL Serbia d.o.o.	1	-
Slovnaft a.s.	-	35
IES Italiana Energia e Servizi S.p.A	-	1

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 2018	31 Dec 2019
Oil field services			
*Crosco Naftni Servisi d.o.o. Zagreb	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%
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%
Crosco Ukraine LLC	Oilfield services	100%	100%
Oil exploration and production			
*INA Naftaplin International Exploration and Production Ltd, Guernsey	Oil exploration and production	100%	-
INA Adria B.V.	Oil exploration and production	100%	100%
INA Jadran, d.o.o.	Oil exploration and production	100%	100%
Tourism			
*Hostin d.o.o. Zagreb	Tourism	100%	100%
Auxiliary services			
*STSI integrirani tehnički servisi d.o.o. Zagreb	Technical services	100%	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	IT services	100%	100%
*INA Vatrogasni servisi d.o.o.	Firefighting activity	-	100%
*INA Industrijski servisi d.o.o.	Managing activities of holding companies	-	100%
Production and trading			
*INA Maziva d.o.o., Zagreb	Production and lubricants trading	100%	100%
Trading and finance			
*INA Slovenija, d.o.o. , Ljubljana, Slovenija	Trading	100%	100%
*INA BH d.d. Sarajevo, Bosnia and Herzegovina	Trading	100%	100%
*Holdina d.o.o. Sarajevo, B&H	Trading	100%	100%
*Energopetrol d.d. Sarajevo, BiH	Trading	88.66%	88.66%
*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%
*INA BL d.o.o. Banja Luka	Trading	100%	100%
*Petrol d.d. Jurdani	Trading	100%	100%
*INA Maloprodajni servisi d.o.o.	Trading	100%	100%

Management representation

INA Group's consolidated financial statements for 2019 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:

- Sándor Fasimon – President of the Management Board
- Niko Dalić – Member of the Management Board
- Ivan Krešić – Member of the Management Board
- Davor Mayer – Member of the Management Board
- Zsolt Pethő – Member of the Management Board
- Ákos Székely – Member of the Management Board