ANNUAL **REPORT**

2019

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OVERVIEW

MISSION

VISION

INA, d.d. plays a major role in the oil, oil products and gas markets in Croatia and neighboring countries, and is committed to creating higher value by continuously improving its business and quality of products and services.

To be a well-reputed and desirable partner that is known for its excellent products and services, for honest and nurtured relationships, and for protection of the interests of our owners, customers, employees and other partners.

CORE VALUES

At INA Group we all share four main values that are just as important at our sites as they are in our offices or at any of our retail sites. Values lead us to make the right decisions, support us in our everyday work, help us create the corporate culture we desire and enable us to transform INA Group for the better.

PEOPLE

We put people first

INA Group is a people-driven company – our colleagues are the foundation our business is built on.

CUSTOMERS

All for the customer, and for the customers all

Customer service is not a department - it is part of our brand DNA.

OWNERSHIP

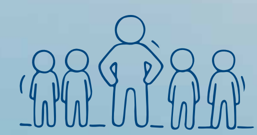
Our company, our responsibility

We empower and inspire each other. This is what makes INA Group dynamic and forward-thinking.

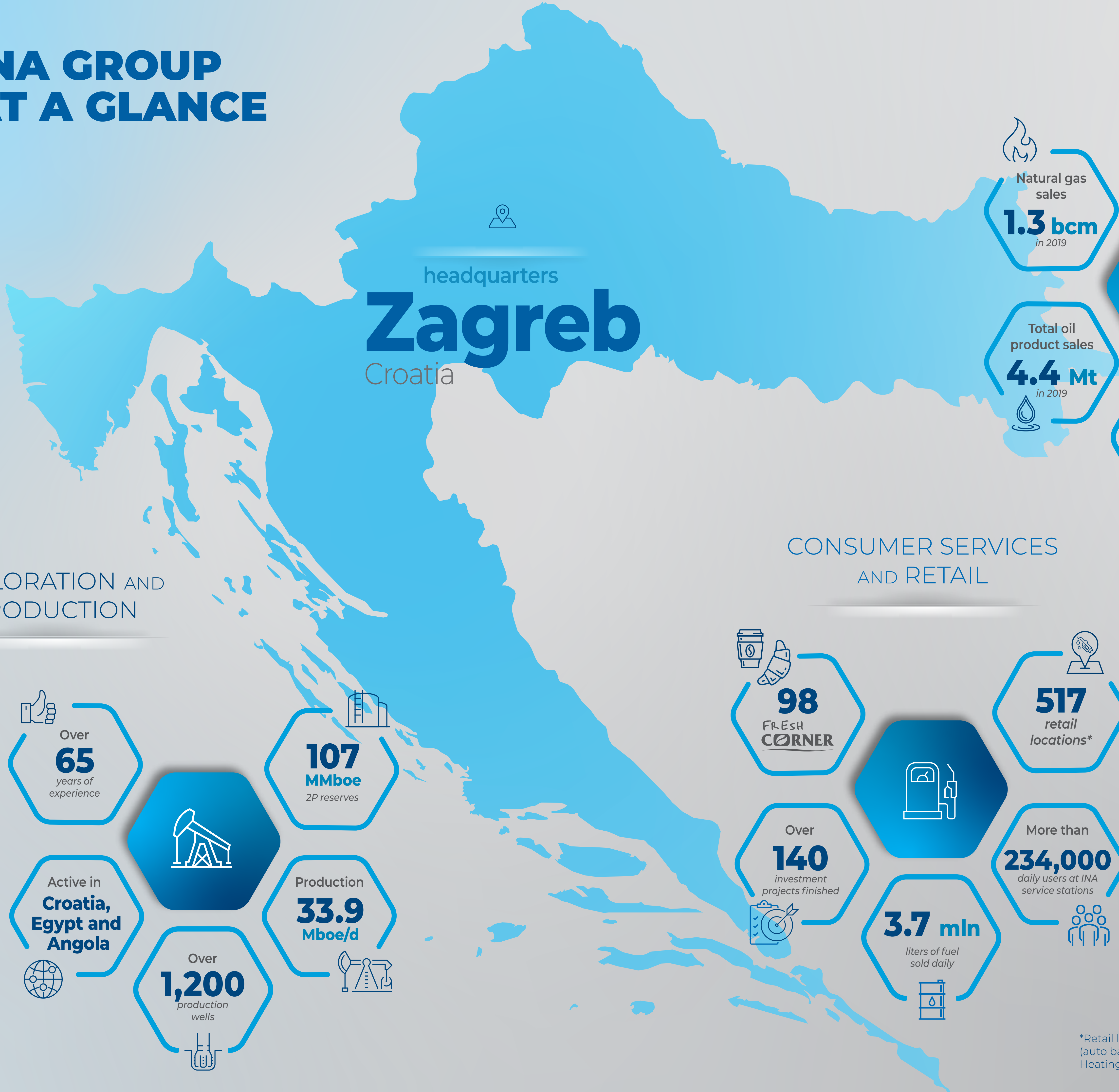
AGILITY

We drive the change that will shape our future

We make sure we are relevant in new situations and do things better to take the lead.



INA GROUP AT A GLANCE



REFINING AND MARKETING

Natural gas sales **1.3 bcm** *in 2019*

Market share approx. **72%** *Croatia* approx. **52%** *B&H*

Total oil product sales **4.4 Mt** *in 2019*

13 imported crude oil grades *processed in 2019*

2 *Production sites (Rijeka and Sisak Refinery) and* **1** *lubricant blending plant in Zagreb*

CONSUMER SERVICES AND RETAIL

98 FRESH CORNER

517 *retail locations**

Over **140** *investment projects finished*

More than **234,000** *daily users at INA service stations*

3.7 mln *liters of fuel sold daily*

EXPLORATION AND PRODUCTION

Over **65** *years of experience*

107 **MMboe** *2P reserves*

Active in **Croatia, Egypt and Angola**

Production **33.9** **Mboe/d**

Over **1,200** *production wells*

*Retail locations imply: 511 service stations and other retail locations (auto bar / restaurants, carwash, shop, Heating Oil sales point, LPG sales point) in region

KEY FINANCIAL AND OPERATING DATA

102-1, 102-16

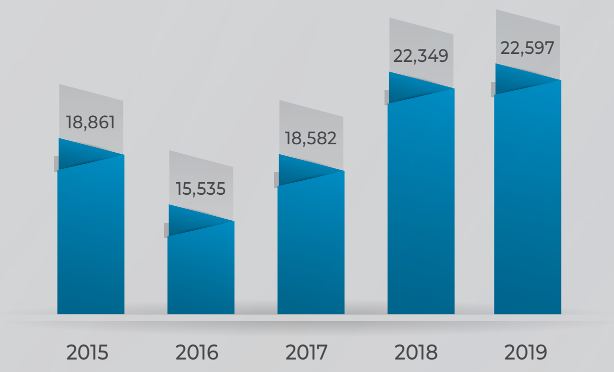
KEY FINANCIAL DATA (HRK MLN)*	2018	2019	CH %
Revenue from contracts with customers	22,349	22,597	1
EBITDA[1]	3,489	2,859	(18)
EBITDA excluding special items[2]	3,291	2,859	(13)
o/w Exploration and Production	3,014	2,356	(22)
o/w Refining and Marketing including Consumer Services and Retail	461	519	13
CCS EBITDA excluding special items	3,116	2,897	(7)
Profit for the year	1,177	489	(58)
Net cash inflow from operating activities	2,831	2,835	-
Capital expenditures	1,817	2,150	18
o/w Exploration and Production	649	687	6
o/w Refining and Marketing	857	1,071	25
o/w Consumer Services and Retail	213	265	24
Basic and diluted earnings per share (HRK per share)	117.75	48.57	(59)
Gearing ratio (%)[3]	12	19	

** Detailed data analysis is provided in the Management Discussion and Analysis chapter*
[1] EBITDA = EBIT + Depreciation, amortization and impairment (net)
[2] 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, d.o.o. acquisition; 2019 result was negatively impacted by HRK 282 mln impairment of assets - Croatian offshore gas fields
[3] Gearing ratio = Net debt/Net debt + equity including non-controlling interest

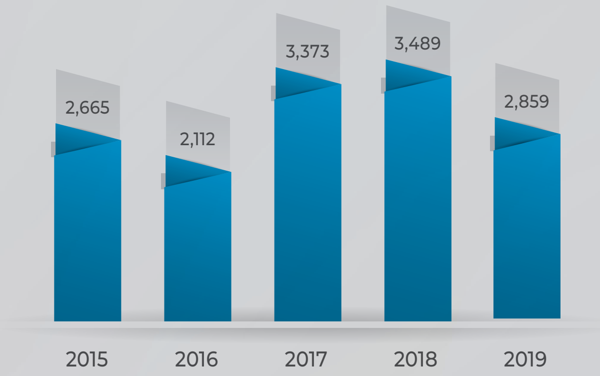
KEY OPERATING DATA	2018	2019	CH %
KEY EXPLORATION AND PRODUCTION DATA			
Total gross hydrocarbon reserves (MMboe) 2P	115	107	(7)
Total hydrocarbon production (Mboe/d)	34.9	33.9	(3)
KEY REFINING AND MARKETING DATA			
Total refining throughput (kt)	4,189	3,136	(25)
Total crude oil product sales (kt)	4,331	4,404	2
KEY CONSUMER SERVICES AND RETAIL DATA			
Total number of service stations	500	511	2
Total sales (kt)	1,082	1,115	3
ENVIRONMENTAL AND SOCIAL PERFORMANCE DATA			
Carbon dioxide emissions (Mt)	1.91	1.51	(21)
Total Recordable Injury Rate (TRIR)*	2.70	1.97	(27)
Total score in Croatian Corporate Social Responsibility Index	631	665	5

**Own staff + contractors*

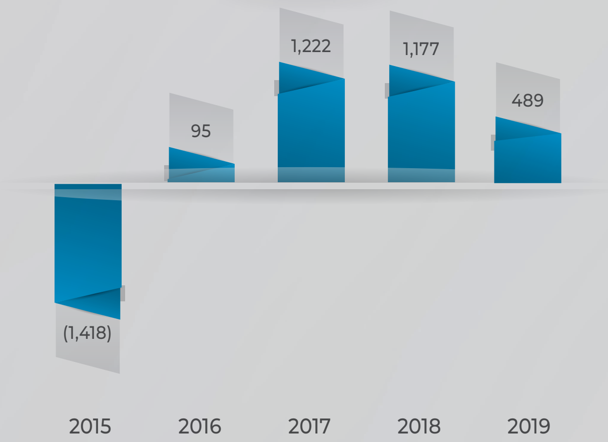
REVENUE FROM CONTRACTS WITH CUSTOMERS (HRK mln)



EBITDA (HRK mln)



(LOSS)/PROFIT FOR THE YEAR (HRK mln)



COMPANY AND SHAREHOLDER INFORMATION

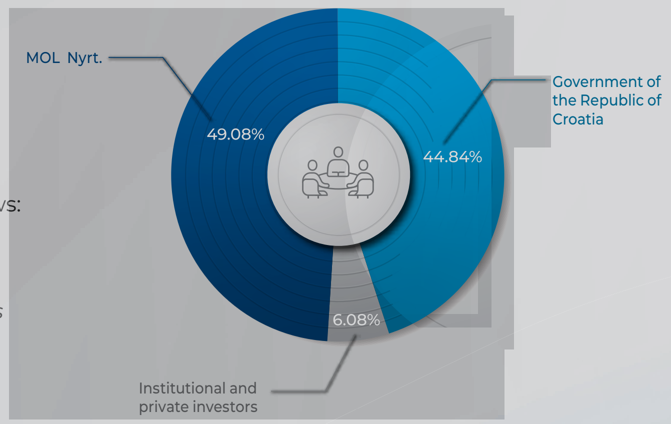
The company's share capital is divided into 10,000,000 ordinary shares with every share carrying one vote, dividend right and a nominal value of HRK 900.00.

INA - Industrija nafte, d.d. was officially listed on the Zagreb Stock Exchange on 30 November 2006 with ticker symbol INA-R-A. INA's global depositary receipts ("GDR") were also listed on the London Stock Exchange until September 2014.

OWNERSHIP STRUCTURE

As at 31 December 2019, INA's ownership structure is as follows:

- *MOL Nyrt. – 4,908,207 shares*
- *Government of the Republic of Croatia – 4,483,552 shares*
- *Institutional and private investors – 608,241 shares*



Letter from the President of the Management Board

Sándor Fasimon

INA Group once again achieved a solid result in 2019, and the business year was marked by significant investments. Despite the more demanding external environment compared to 2018, we increased our revenues to HRK 22,597 million and achieved a better cash inflow from business activities. Investments grew by 18% to HRK 2,150 million. Thanks to these results, INA remains the leading Croatian company and one of the leading investors in the country.

In 2019, Exploration and Production remained a major generator of the company's earnings despite a worsened external environment. Although domestic fields are recording an expected fall in oil and gas production due to their maturity, overall production results are stable. Higher oil production in Egypt contributed to this, where we achieved a growth of 19% and successfully drilled the deep exploration well Rizk-2D, which is also the first INA exploration well abroad after nine years. In addition, it is the deepest the company has drilled in the last 35 years. We are focused on sustainable production. Our EOR project for CO_2 injection into the mature Ivanić and Žutica fields where it remains permanently stored, not only contributes to increased production but also significantly reduces emissions. We believe that at a time when the European Commission is looking for a more significant turn towards sustainable production, the potential of EOR and its potential for carbon capture, utilization and storage (CCUS) will be recognized outside the company as well. INA has the necessary knowledge and is ready to develop it.

In 2019, we made historic steps for our refinery business. With the decision to invest in the residue upgrade project worth around HRK 4 billion, we will make our refining business profitable and sustainable in the long term and turn the Rijeka Refinery into a modern European facility. From 2023, when the new plant is planned to start operating, the competitiveness of the refinery will be increased, and the structure of the products improved by increasing the share of the production of profitable white products, that is, motor fuels. In addition, the first half of 2019 was marked by a major overhaul of the Rijeka Refinery, which is also the largest in the company's history, worth HRK 800 million. The results of this project are already visible through improvements in product structure and through reduced environmental impact, which will certainly be further reduced by the construction of a heavy waste treatment plant. Our industrial location in Sisak remains a valuable part of our business. We have also made the decision to invest in bitumen production, and in Sisak we intend to launch other cost-effective activities, so that we can develop the project for the construction of a plant for advanced bioethanol with a negative CO_2 footprint, i.e. a bio-refinery. The support of the European Union and the Government of the Republic of Croatia are key preconditions for the final realization of this significant project, which would make INA a regional leader in the production of environmentally friendly advanced second-generation biofuels.

When it comes to our retail activities, our company has maintained a leading position on the market, but also increased its share in the key markets of Croatia and Bosnia and Herzegovina. With the acquisition of retail locations in Montenegro, we have strengthened our market position in that country, which is in line with our guidelines for additional positioning in the region. Higher sales of motor fuels are the result of strong wholesale performance as well as the close monitoring of key markets and the timely exploitation of opportunities. This ultimately resulted in increased sales of motor fuels in Bosnia and Herzegovina and Albania. In addition, 2019 was marked by an increase in the recognition of INA's brand by customers, which we achieved by constantly listening to their needs. The world around us is changing, as are our customers' needs, which is why, with the help of our partners, we started to install electric vehicle charging stations next to our highway retail locations.

INA is focused on sustainability and that is our benchmark. We initiate and participate in environmental conservation initiatives, and through our Green Belt we have helped to revive forests in fire-devastated wild-land areas, as well as numerous other environmental initiatives. We are constantly investing in improving the quality of life for local communities in which we operate through donations to hospitals and health-care facilities, helping to build playgrounds and investing in culture and sports. We are also proud of our workers who volunteer through the INA Volunteer Club. With their contributions, INA has become a leader in corporate volunteering in Croatia. We also demonstrate social responsibility through the care and health of our employees. Our internal project Zdravlje+ was recognized and awarded by National Geographic Croatia, which we are extremely proud of.

We are successfully transforming our business. Last year, INA launched the ANI program within New Businesses and was recognized as a potential partner within a very short time by the start-up community. We are exploring the potential of hydrogen as a fuel, we have installed two small solar power plants at our locations and we have projects that will mark a major step forward in this area. INA wants to be part of the solution when it comes to climate change, and in this we see an opportunity for our further development.

The main driver of our success are people - our workers first and foremost. We invest in their development, satisfaction and create the conditions that are accepting of diversity and inclusive for each individual. We are on the right track as attested by the awards we received last year, such as the Employer of the Year for People with Disabilities award, which highlights employers with positive practices and experiences in hiring people with disabilities, and the CSR Index award, presented by the Croatian Business Council for Sustainable Development together with the Croatian Chamber of Economy, which in 2019 recognized the policies and programs of INA's Human Resources department. Also, we remain a leader in youth employment and for the tenth consecutive year, through the Growww internship program, young professionals are embarking on their careers at INA.

We want to build INA's future on solid ground, which is why we strive to adapt our business to be resilient and ready to meet all the challenges ahead. Our focus on sustainability, the expertise and dedication of our employees and the ability to share experience and knowledge throughout the MOL Group make us better in achieving our goals.

ABOUT INA GROUP INTEGRATED REPORTING

102-50, 102-51, 102-52, 102-53, 102-54, 102-55

INA Group annual report is the 6th consecutive integrated report published as part of our commitment to stakeholders with the aim of transparent disclosure of the company's integrated financial and material sustainability performance overview. The report focuses on the material economic, environmental and social impacts of INA Group business activities and addresses the company's performance in the period from 1 January to 31 December 2019. INA Group publishes reports on an annual basis, and the last report was published in April 2019. To ensure that our report meets the highest standards, we follow:

- The Croatian Companies Act, the Capital Market Act and the Accounting Act that prescribes the scope, contents and deadlines of the Annual Report
- International Financial Reporting Standards (IFRS) when reporting on financial results
- Global Reporting Initiative (GRI) Standards (Core option) when reporting on sustainability performance
- Oil & Gas Sector Supplement that provides reporting guidance for companies and organizations primarily involved in the exploration, extraction, production, refining, and transport and sale of oil, gas, petrochemicals and specialized oil service companies
- Reporting progress on the ten principles of the United Nations Global Compact (UNGC)

This report is our disclosure in compliance with the Directive 2014/95/EU on disclosure of non-financial and other information by certain large undertakings and groups.

For this report, an independent assurance company has performed a limited assurance engagement for ten GRI indicators that are characterized as the most material. The conclusion of the independent assurance report can be found on page 130.

The scope of this report and the sustainability material topics boundaries are determined by considering their relevance to business, availability of the information and operation performances, covering the sites and locations directly under operating control of INA Group companies (details on page 119). GRI content index can be found on www.ina.hr/home/press-centar/publikacije/izvjescivanje/.

We would appreciate and welcome any feedback on this report via e-mail address: investitori@ina.hr, odrzivi_razvoj@ina.hr, or PR@ina.hr. Read about the details on INA Group reporting history and accomplishments on our website.

WE SUPPORT

UN GLOBAL COMPACT

As an UN Global Compact Signatory, since 2007, INA, d.d. has been committed to promoting and supporting the ten principles of UN Global Compact.

This document also serves as our Communication on Progress for the UN Global Compact.

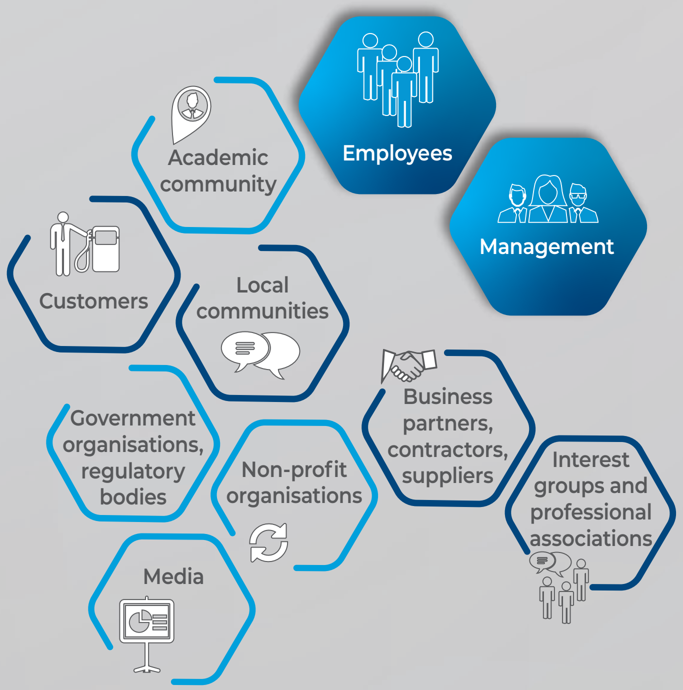
MATERIALITY AND STAKEHOLDER ENGAGEMENT

102-40, 102-4, 102-43, 102-44, 102-46, 102-47, 102-49, 413-1

In INA Group, material topics are closely related to our business and sustainable development goals. They are embedded in our business strategies and plans. In planning these goals and strategies, we do our utmost to include our stakeholders' opinions and views on INA Group impact on their sustainability and business activity, on the sustainability of economic circumstances and the society as a whole. For this reason, we collect stakeholders' opinions and discuss the most important topics at stakeholder meetings and events we organize, making sure that we are constantly open to their comments on our business performance and their suggestions for improving our business and building better relationships.

In 2019, we decided to take another step forward and organized a special stakeholder consultation on our material topics. We checked the material topics beforehand with our key external stakeholders through an online survey in order to determine the relevance of material topics. After that, we organized a consultation titled "An open discussion on sustainability of INA Group", in which the representatives of external stakeholder groups, in a facilitated interaction, discussed five material topics that were recognized as important for INA Group today and in 2030. At the end of the process, a survey was conducted using an online questionnaire involving 97 managers from INA Group, based on which we obtained internal stakeholders' opinions and views on material topics. In this manner, the finalized process ensured complete verification of material topics, laid the foundations for the preparation of a new materiality matrix and provided a quality basis for determining the aspects of the annual report and the treatment of individual areas therein. This process also ensured a free exchange of stakeholders' opinions at the consultation, which was the first time that a company in Croatia had used the form of multi-stakeholder dialogue to openly discuss material issues, practices and policies, and it was evaluated positively by the stakeholders.

INA GROUP ENGAGED STAKEHOLDERS



Stakeholder engagement included 45 representatives of various external stakeholder groups in the initial materiality survey, 23 representatives of external stakeholders in the consultation (multi-stakeholder dialogue) and 97 internal stakeholders. From external stakeholders, representatives of various stakeholder groups have participated in and contributed to the survey and the consultation: business partners and suppliers, customers, representatives of regulatory bodies, state administration bodies and local communities, representatives of the academic community, non-profit organizations and the media.

Stakeholders have recognized the importance of non-financial reporting within the INA Group Annual Report, and the vast majority have read the report in its entirety or in sections that are of particular interest to them.

Stakeholders who consider the Annual Report to be of good quality, comprehensive and relevant

In order to get a better picture of stakeholders' expectations regarding the management of INA Group material topics in the upcoming period, we also asked them about their opinion on how the importance of these material topics would develop. They have estimated that the topics that are relevant today will continue to be relevant by 2030, but with a somewhat different degree of relevance.

TOP 5 2019

- Health and safety
- Spills spills into the environment
- Energy efficiency and climate change
- Waste management
- Research & Development of future responsible products and services

TOP 5 2030

- Energy efficiency and climate change
- Waste management
- Health and safety
- Spills into the environment
- Provision of responsible products and services

As a result of the stakeholder engagement, a matrix of material topics for INA Group was developed.

INA GROUP MATERIALITY MATRIX

Stakeholders have also evaluated how actively INA Group manages its impact in material topics. According to their answers, their perception is that INA Group manages most of its material topics very actively, and some are even managed excellently (e.g. community relations and human capital). External stakeholders expect that some topics, such as energy efficiency and climate change, or research and development of future responsible products, can be managed more actively. In general, stakeholders deem that management of INA Group material topics is either important or very important. When comparing the assessment of the importance of managing a particular material topic with how well it is managed, stakeholders have estimated that INA Group should invest more effort in research and development of future responsible products and services, energy efficiency and climate change issues, and - to some extent - in human capital management as well. When evaluating how well INA Group manages its material topics, internal stakeholders have recognized the highest quality of governance in the areas of health and safety, waste management, spills to environment and community relations. Internal stakeholders see the greatest opportunities for progress in the areas of supplier and contractor management, provision of responsible products and services, human capital development and enhancing commitment to biodiversity.

In the course of the consultation and stakeholder engagement, we have managed to confirm that material topics are well-recognized and actively managed, which was also recognized by our stakeholders. We intend to continue our open stakeholder consultations in future as well, in order to constantly check materiality and manage our impacts.

AWARDS AND RECOGNITIONS

Employer Partner Certificate

For the 9th time, INA, d.d. was presented with the Employer Partner Certificate, an award for excellence in human resources management. The certificate aims to draw attention and offer recognition to companies that have high-quality human resources management and that implement standards proven to advance business results and quality of labor. In this year's certification process, INA, d.d. has earned an impressive 98% of the possible points, ranking it among the TOP 5 Employer Partners and being at the top of the most desirable employers in Croatia. In INA Group, certificate was also received by: INA MALOPRODAJNI SERVISI d.o.o. for the 1st time; CROSCO d.o.o., STSI d.o.o., PLAVI TIM d.o.o., TOP RAČUNOVODSTVO SERVISI d.o.o. and INA MAZIVA d.o.o. for the 2nd time.

First Choice Employer

For the last 10 years INA, d.d. has been positioned between TOP 10 Employers in Croatia (ten times among TOP 10). The First Choice Employers Survey is a traditional survey conducted by MojPosao portal for the 12th year in a row. The aim of the research is to find out which employers in the Croatian labor market are the most attractive to the general public. Each year, independent respondents 'create' a list of employers they would like to work with most and find out why these employers deserve their place on their list of 'most wanted'.

Employer of the year for people with disabilities

INA, d.d. has been awarded with the Employer of the Year for People with Disabilities Award in the category Best Practices in 2019. This award highlights employers with positive practices and experiences in hiring people with disabilities, to help raise awareness and sensitize the public to hiring people with disabilities.

Croatia's Best Employer Brand Awards

INA, d.d. won three awards at the first Croatia's Best Employee Brand Awards event in the following categories:

- Best employer brand activity - student programs (topic: Growww)
- Progress in implementation of EB activities (topic: D&I strategy, #weareallOK)
- The best EB brand in the technology sector

The award is a testament to the quality of the activities we carry out to improve our current and future employees' work experience and job satisfaction, and show that we understand the importance and accept responsibility for the satisfaction of our employees. To receive this award means to increase the organization's visibility in the employment market and to further stand out from the competition.

OPEN Spotlight Award

INA, d.d. was awarded in category Excellence in Belonging (topic: D&I strategy; #weareallOK) that shows how creating an open corporate culture contributed to the sense of belonging. Openness makes people feel happy and safe at work. These feelings enhance their creativity and ability to innovate, and give organizations a wider lens through which to view today's challenges, so that they can contribute to a better future for us all.

MAMFORCE

In 2019, INA, d.d. was certificated for the 3rd time. In this audit INA, d.d has reached 93% which is the highest percentage so far. A commitment to the area of work-life balance and equal professional opportunities for women and men places INA, d.d. at the top of the best companies in Croatia, as it is 28% better than the average of comparable companies. MAMFORCE © is an innovative method of assessment and business certification that combines corporate responsibility with the family and gender equality. The assessment method is scientifically based and developed in co-operation with leading academic and international institutions. Through MAMFORCE, organizations gain a better insight into the effectiveness of existing policies of family responsibilities and diversity opportunities to improve organizational culture synergy of indicators of successful business and employee welfare.

Golden Index

In 2019, INA, d.d. received the Golden index in the “Schoolarships” category. The aim of the “Golden Index” is to reward companies which contributed to better student life, education and professional development of students. Companies are rated by students themselves, and the goal of the project is to establish a closer cooperation between students and companies, which should contribute to the development of professional competencies and relations. Golden Index is organized by eSTUDENT, one of the most active student organizations in Croatia.

CSR Index Award

At the 11th Corporate Social Responsibility Conference, organized by the Croatian Business Council for Sustainable Development and the Croatian Chamber of Economy, INA, d.d. received the award in the category of Corporate Social Responsibility Policy in Diversity and Protection of Human Rights as a recognition for INA Human Resources policies and programs.

Green Frog Award

INA Group won the Green Frog Award in 2019 for the Best Sustainable Development Report in Croatia for 2017, at the contest organized by Deloitte. This is the third Green Frog Award INA Group has received for its Sustainability Reports. Deloitte's Green Frog Award for the Best Integrated and Sustainability Report is an initiative that aims at promoting sustainability as the foundation for business success and increasing the awareness of the benefits and business value of sustainable development.

Yellow Frame award by National Geographic Croatia

Zdravlje+ project "Integration of Health Protection and Promotion in INA Group Companies" was awarded the Yellow Frame in the Sustainable Development Goal 3 – Good Health and Well-Being category. This award was presented for the first time as part of the National Geographic Croatia competition for projects whose accomplishments best reflect, promote and support sustainable development objectives in the knowledge society in 17 categories of UN's Global Goals.

Awards for INA Volunteers Club

In 2019, INA Group Volunteers Club received two awards: an award from Volunteer Centre Osijek for the contribution of the business sector to the development of volunteering, and a recognition from Zagreb Volunteer Centre for INA's significant contribution to the development of volunteerism in Croatia.

INOVA 2019 International Innovation Exhibition Awards

At the International Innovation Exhibition INA Group won six awards. Gold medal was awarded to the following innovation proposals: Small hydroelectric power station; Smart lighting system at service stations and INA GAT 20 refrigerant. Bronze medal was awarded to: Automation of the process of sending price lists to the customers, Case for 0.5 l bioethanol sampling laboratory bottle and using the knowledge management principle in integrating the workflow within organizational units.

2

CORPORATE GOVERNANCE

ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES

102-18

INA's management structure is based on a two-tier board system, comprising of a Supervisory Board and a Management Board. With the General Assembly, these constitute the three mandatory internal bodies of INA, d.d. in accordance with INA's Articles of Association and the Companies Act.

The Supervisory Board is responsible for the appointment and recall of the Management Board members and supervises the conduct of the Company's business operations. Pursuant to INA's Articles of Association, the Supervisory Board consists of nine members, one member being the employees' representative. Based on the Shareholders' Agreement signed between MOL and the Croatian Government, five members are appointed by MOL and three by the Croatian Government.

The Management Board consists of six members. Based on the Shareholders' Agreement, three members are appointed by MOL, including the President, and three by the Croatian Government.

Members of the Council of Directors are appointed based on a Management Board's decision. They are authorized and responsible for the management of operations of INA's individual business divisions (Exploration and Production, Refining and Marketing, Consumer Services and Retail, Finance and Industrial Services).

Business address for all members of the Management Board, Supervisory Board and members of the Council of Directors is Avenija Većeslava Holjevca 10, 10 020 Zagreb, Croatia.

Supervisory Board

Members of the Supervisory Board from 14 June 2017 until 18 December 2020:

- Damir Vanđelić - 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

Members of the Management Board until 31 March 2020:

- 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

Members of the Management Board from 1 April 2020:

- Sándor Fasimon - President of the Management Board
- Niko Dalić - member of the Management Board
- Barbara Dorić - member of the Management Board
- Darko Markotić - 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

Issuer's Audit Committee

The Audit Committee is a body appointed by the Supervisory Board and confirmed by the General Assembly with the purpose of assisting the Supervisory Board and Management Board in the performance of their corporate management tasks, financial reporting and control of company operations. However, the Audit Committee is solely an auxiliary body and cannot relinquish the Supervisory Board or the Management Board of their responsibilities. The Supervisory Board discusses the Report on the Audit Committee's activities once a year.

The Audit Committee's responsibilities are related to:

- Accounting segment
- External auditor segment
- Financial segment
- Risk-management segment

In performing its tasks, the Audit Committee is authorized to oversee the internal processes in INA, d.d., request additional information from the company or its auditors and conduct interviews with employees. Furthermore, the Committee is authorized to engage independent consultants at the expense of the company.

Members of the INA, d.d. Audit Committee from 1 July 2019 are:

- Judit Szilágyi - Chairman of the Audit Committee
- Ratko Marković - member of the Audit Committee
- Hrvoje Šimović - member of the Audit Committee

Given the fact that INA's shares are listed on a regulated market, INA – Industrija nafte, d.d. applies the Corporate Governance Code effective from 1 January 2011, which was jointly prepared by the Croatian Financial Services Supervisory Agency (Hrvatska agencija za nadzor financijskih usluga) and the Zagreb Stock Exchange (Zagrebačka burza d.d. Zagreb) and is published on the Zagreb Stock Exchange website (www.zse.hr) and Croatian Financial Services Supervisory Agency website (www.hanfa.hr).

In addition to the Corporate Governance Code, INA Group also applies its own Code of Ethics, which defines the basic values and principles of conduct of INA Group management and employees regarding their attitude towards work, associates, business partners and the public. The Code also sets forth the obligations of INA Group to secure appropriate work conditions and professional development to employees and ensure avoidance of unacceptable forms of behavior. The Code covers a broad area of business relationships and processes and has to be observed by all persons acting in the name and on behalf of INA Group, including natural persons and legal entities who are in a contractual relationship with INA Group (business partners, consultants, suppliers, sellers etc.). The Code can be accessed at INA, d.d. website (www.ina.hr). INA, d.d. generally abides by the provisions of the Corporate Governance Code, with the exceptions stated in the Annual Corporate Governance Questionnaire published on INA's website.

Some of the exceptions are as follows:

INA, d.d. does not publish or update the list of shareholders. The ownership structure is available on the Company's website, whereas a detailed list of shareholders is kept by the Central Depository and Clearing Company Inc. (Središnje klirinško depozitarno društvo d.d.), which publishes a list of the ten largest shareholders on its website in accordance with the law.

INA, d.d. does not publish data on the Company's shares held by the Management Board or Supervisory Board members on its website. Instead, all announcements in reference to the new securities transactions by the Management Board or Supervisory Board members can be found on the Company's website.

INA, d.d. does not provide proxies to the Company's shareholders who are not able to vote at the General Assembly, for any reason. The shareholders who are not able to vote themselves should, at their own discretion, appoint appropriate proxies who are obliged to vote in accordance with their instructions. The Company has not received any requests from shareholders in this respect.

The Company sets the terms and formal conditions for participation of the shareholders in the General Assembly in accordance with the Companies Act and the Company's Articles of Association in order to protect the shareholders' rights in cases when there is a large number of shareholders.

The Supervisory Board is not composed of a majority of independent members. It is composed of major shareholders' representatives and a workers' representative in accordance with the Companies Act.

The long-term succession plan has not been published; however, the existing systems of electing members to the Supervisory Board, Management Board and top management take into account the continuity in performing supervisory, management and administrative functions.

The Company's remuneration policy for members of Management and Supervisory Board policy is being prepared and approved. It is expected to be presented on the 2020 Annual General Meeting.

The amounts of remunerations paid to independent auditors for rendered services are not published and constitute a business secret.

Sándor Fasimon - *President of the Management Board*

Mr. Fasimon was appointed President of INA Management Board on 1 July 2018. From 1991, he held various leadership positions in the oil and gas trading company Mineralimpex. Between 1996 and 1997, he served as the Head of the Hungarian Commercial Section in Tripoli, Libya. Mr. Fasimon joined MOL in 1998 when he was appointed Supply Director in the field of crude oil and crude oil products. In 2002, he became the CEO of Moltrade - Mineralimpex. A year later, he was appointed Managing Director of the Natural Gas Division. Between 2006 and 2009, he was the Chief Executive Officer of MOL's Russia Office, after which he continued his career as the Senior Vice President of Supply & Trading. In 2011, he became the Managing Director of the Exploration and Production Division and he served as the Chief Operating Officer of MOL Hungary from 2012. On 15 October 2018 he was appointed to the function of the President of Supervisory Board of Petrokemija d.d. Kutina. Mr. Fasimon is also a Vice President of the Hungarian Chamber of Commerce and Trade.

Sándor Fasimon graduated from the Moscow State Institute of International Relations (IMO) with an economics degree in 1990. Between 1990 and 1991, he attended postgraduate studies at the University of Cairo, where he studied Arabic.

Niko Dalić - *member of the Management Board*

Mr. Dalić was appointed member of INA Management Board in February 2011. He started his career in 1986 as a geologist working on upstream projects in Croatia. In 1996, he was appointed Head of the business unit responsible for Eastern Slavonia and Podravina. From 2005 to 2008, he was the Assistant Executive Director of Naftaplin, where he was in charge of running international projects. Apart from that, he was also the Head of the strategy team in Naftaplin and the team for Energy Strategy of the Republic of Croatia, as well as the IPO team. After that, from 2008 to 2009, he was the Head of the Exploration Sector. As of June 2009, he has been serving as a member of the Management Board of ED-INA d.o.o., a joint venture of INA, d.d. and Italian company Edison, where he has focused on the activities in the Izabela field in Northern Adriatic.

Niko Dalić graduated from the Faculty of Science at Zagreb University, where he later acquired his master's degree. He passed his state license exam at the Ministry of Science in 1996. Mr. Dalić attended a number of seminars and professional trainings in Croatia and abroad. He is a member of numerous professional associations and has published several papers. From 2005 to 2009, he was the President of the Croatian Geological Society. From December 2014 to October 2018, Mr. Dalić served as the Vice President for Geology in HUNIG (Croatian Association of Petroleum Engineers and Geologists).

Ivan Krešić - *member of the Management Board*

Mr. Krešić was appointed member of INA Management Board in February 2011, after serving as Rijeka Refinery Director from 2006. He started his career as a process engineer in INA, in Rijeka-based refinery Maziva. He was the head of production from 2000 to 2004, when he was appointed Director of INA Maziva Rijeka. In August 2006, he was appointed Director of Rijeka Refinery. From 2009 to 2011, he was a member of the Supervisory Boards of INA Group members INA MAZIVA d.o.o. and STSI d.o.o.

Ivan Krešić graduated from the Faculty of Chemical Engineering and Technology in Zagreb, where he won the Rector's Award for best student paper. He acquired his master's degree at the Rochester Institute of Technology, USA, in 2001. He holds an MBA certificate gained at Bled School of Management in 2003. Additionally, he attended executive education programs in the fields of finance, change management, mergers and acquisitions at London Business School, and effective risk management oversight for Board members as well. He is a member of the Alumni Club of Bled School of Management and executive education alumni of London Business School.

Davor Mayer - *member of the Management Board*

Mr. Mayer was appointed member of INA Management Board in February 2011. He started his career as an intern in INA Refinery Zagreb (today: INA MAZIVA d.o.o.) and Sisak Refinery, after which he worked on INA refinery processing optimization and afterwards in international trade. He served as the Petroleum Products Wholesale Manager in OMV from 1998 to 2002, when he took up a position in Tifon, becoming the head of the representative office of Gulf Oil International. From 2005 to 2008, he was the Industrial Manager for SEE in ExxonMobil. He started working in Tifon again in 2008 as a member of the Management Board and wholesales, procurement, logistics and card business manager, and in June 2009, he assumed the position of Fleet Card Management Sector Director in INA, d.d., alongside his seat in Tifon Management Board.

Davor Mayer graduated from the Faculty of Chemical Engineering and Technology, and later on attended professional seminars and courses. He attended a postgraduate course on management systems at the Achieve Global international school in Brussels, Belgium, from 2005 to 2008.

Zsolt Pethő - *member of the Management Board*

Mr. Pethő was appointed member of INA Management Board on 1 July 2018. Mr. Pethő joined MOL in 1998 and has since held several senior managerial roles within the Downstream business. He worked as the LPG (propane-butane) Product Director, Fuel Products Director and as Sales Director, before being appointed Commercial Director of Refining and Marketing in 2006. He was appointed Senior Vice President of MOL Group Petrochemical Division and CEO of TVK Plc. in 2011. In 2012, he became the head of MOL Hungary's Downstream operations. In 2016, he was appointed Senior Vice President for the Group Supply, Trading & Optimization organization and he has been serving as the Senior Vice President for Downstream Commerce & Optimization in MOL Group since the organization's establishment in May 2017.

Zsolt Pethő graduated from the Donát Bánki Faculty of Mechanical and Safety Engineering in Budapest. He also acquired an Advanced Certificate in Marketing from the Marketing Academy of Budapest in 1997.

Dr. Ákos Székely - *member of the Management Board*

Dr. Székely was appointed member of INA Management Board on 1 July 2018. Dr. Székely started his career at Budapest Waterworks, and in 2003, he became the Controlling Manager for the company Provident. In 2007, he started working at E.ON Hungary as Group Controlling Manager. Dr. Székely joined MOL Group in 2013 as a subsidiary CFO, working in Hungary, Slovakia and France, and from May 2015, he served as the CFO of MOL Hungary. Dr. Székely was appointed Chief Financial Officer in INA, d.d. in February 2016, and in November 2017, he returned to his previous position in MOL Hungary. Dr. Székely has been serving as the Senior Vice President for Financial Planning and Reporting in MOL Group since February 2018.

Dr. Ákos Székely graduated from the Faculty of Management and Business Administration at the Budapest University of Economic Sciences in 1999. He also holds a Ph.D. in Business Administration and Management.

Vlatko Dujanić - *Operating Director of Consumer Services and Retail*

Mr. Dujanić was appointed Operating Director of Consumer Services and Retail on 1 July 2019. He joined INA, d.d. in October 2018 as the Director of Retail. From November 2014 and till joining INA, d.d. he held the position of Group VP Retail Sales and Marketing in MOL in Budapest. Mr. Dujanić began his career in The Gillette Company in 1997. Over the following 14 years, he worked in various marketing and commercial positions with The Gillette Company and later Procter and Gamble in Central Europe and UK including the position of Marketing Director for CEE and the Regional Sales Director position for CEEMEA.

Vlatko Dujanić graduated from Rijeka Faculty of Economics and completed MBA in Marketing and Management at the San Diego State University.

Gábor Horváth - *Chief Financial Officer*

Mr. Horváth was appointed Chief Financial Officer on 1 November 2017. Before that, Mr. Horváth held the position of Director of Controlling. He began his career in Ernst & Young auditing company in Budapest, and in 2006, he started working in MOL. In January 2010, he became the Advisor to the Executive Director of Finance Business Function in INA, d.d., where he stayed until 2011. In May 2011, Mr. Horváth became the Head of MOL Group Risk Management, and from March 2015, he served as the Director of INA, d.d. Controlling Sector.

Gábor Horváth studied at Budapest University of Economic Sciences and Public Administration where he earned his master's degree in Economics. Additionally, he completed the ACCA (Association of Chartered Certified Accountants) exams.

Stjepan Nikolić - *Operating Director of Refining and Marketing*

Mr. Nikolić was appointed Operating Director of Refining and Marketing on 1 December 2018. Before that, Mr. Nikolić held the position of Director of Logistics. He started his career in 1995, as a designer of process and energy utilities in Mundus. From 1998 to 2000, he worked in the head office of Crodux as a fuel supply chain analyst and planner. In 2000, he joined Coca-Cola Beverages Croatia where he held various positions in the operations sector for a period of ten years, ranging from a production analyst, production manager and plant manager to country manufacturing manager and country supply manager.

Stjepan Nikolić graduated from the Faculty of Mechanical Engineering and Naval Architecture at the University of Zagreb in 1995 at the process-energy department, and holds a degree in mechanical engineering. He was active in the founding of the Lean association and temporarily worked as an assistant - external associate at the Department of Industrial Engineering. He has enrolled in the international MBA program at the Faculty of Economics and has completed a series of business educations at international universities in South Africa, the United Kingdom, Switzerland and the USA.

Goran Pavlović - *Operating Director of Industrial Services*

Mr. Pavlović was appointed to the position of Industrial Services Operating Director on 1 May 2019. Mr. Pavlović comes from the position of Information Services Director that he held from the time he joined INA, d.d. in 2008. From 2015, he was also appointed as PLAVI TIM d.o.o. Director and became TOP RAČUNOVODSTVO SERVISI d.o.o. Director in 2017. Goran Pavlović joined INA in 2008 from Zagrebačka banka where he held various managerial positions. He started his career in 1994 and in 1997 became the IT Subsystems Integration Director and IT Division Deputy Director in 2000. From 2002 he held several managerial positions outside of IT, ranging from Change Management Director, Corporate Market Positioning Director to Retail Transactional Products Director.

Goran Pavlović graduated from the Faculty of Electrical Engineering at Computer Sciences study. He also obtained a diploma in Management from Henley Management School in Great Britain and attended numerous trainings on management and leadership.

Tvrtko Perković - *Operating Director of Exploration and Production*

Mr. Perković was appointed to this position in July 2017 after serving as the Corporate Centre Operating Director since September 2012. He began his career as an intern in INA, d.d. in 1986 in the Exploration and Production business division, Workover and Well Services Facility, after which he worked as an operating engineer and went on to become the head of the Special Services Sector in 1990. From 1995 to 1997, he was the Assistant Director of the Technical Services Sector, after which he transferred to CROSCO d.o.o. to the position of the Director of the Strategy and Development Sector. In 1999 and 2000, he managed the SAP system implementation project in INA, after which he was appointed to the position of the Director of the Strategy, Human Resources and IT Sector in CROSCO d.o.o. In July 2009, he returned to INA, d.d. to serve as the Director of the Upstream Support Sector and was appointed to the position of the president of the Management Board of STSI d.o.o. in 2010, which he held until July 2012.

Tvrtko Perković graduated from the Faculty of Mining, Geology and Petroleum Engineering at the University of Zagreb in 1985. He completed a number of courses and attended additional education at the international postgraduate study of Business Management - MBA at the Faculty of Economics and Business in Zagreb in 1993.

QUALITY MANAGEMENT

INNOVATION AND AWARDS

For more than half a century, INA Group workers have been applying their innovation proposals categorized as patent (invention), industrial design, technical improvement, business rationalization or useful idea.

During 2019, a new, simplified system for applying and processing innovation proposals at the INA Group level was implemented and was presented to workers through the "Be an Innovator" project to encourage their inventiveness and creativity. This has resulted in an increase in the number of innovation proposal applications. So far the INA Group Innovation Proposal Evaluation Committee has accepted 25 innovation proposals that enhance the logistics, retail and security business processes.

The whole campaign resulted also in the successful presentation of INA Group at the 44th Croatian Innovation Salon INOVA-BUDI UZOR 2019, where our innovators won three gold medals and three bronze medals for new products and business process improvements. INA, d.d. also introduced INA's first start-up program called ANI in order to gain access to new ideas and innovations which can be used to solve internal challenges or to develop new business lines.

QUALITY

Quality management is applied in all business processes through the integrated company system which was also introduced in major INA Group companies. The goal is to continuously improve processes and to further develop the quality of products and services. In 2019, INA Group possessed the certificates according to ISO 9001, ISO 14001, ISO 50001, OHSAS 18001 standards and EU-ISCC certificate on biofuels sustainability, which is a mandatory condition for the sale of biofuels on the EU market. Monitoring of the entire quality management system is implemented with external monitoring management system (MS) audit (1), as well as with integral process MS internal audits for all management systems (187) and supplier quality audits (3). Through the cooperation with related company, monitoring processes such as health and safety audits, internal audits, compliance with the regulations audits and security audits, a better control of the processes is accomplished. In 2019, improvements were made to the internal audit process, document management, and quality education.

In 2019, the practice of checking the protection of personal data process was successfully continued through internal quality audits of INA, d.d. organizational units, where there is a need for setting up personal data filing systems, and in audits of other INA Group companies.

INA, d.d. experts actively participate in the work of the Croatian Society for Quality (CCS) and the Croatian Standards Institute, and through membership in the CCS Supervisory Board, they contribute to the development of good relations with stakeholders and build the reputation of our company.

STANDARDIZATION

INA standards define and specify the quality of our products and raw materials, as well as the elements of the company's visual identity, and prescribe rules and standards in the field of business communication. In 2019, six standards and twelve safety technical lists were revised.

INA, d.d. experts actively participate in the work of more than 34 technical committees and numerous subcommittees and working groups at the Croatian Standards Institute (CSI) where they help improve the process of sustainable development of our company.

INTELLECTUAL PROPERTY

Protection of intellectual property rights includes the protection of inventions (patents), trade and service mark, product names, elements of the visual identity of service stations (trademark), and the protection of the external appearance, i.e. product appearance (industrial design). In line with its business interests, INA, d.d. protects: INA's name through international registration, which ensures protection of INA's name in 27 countries (Republic of Croatia, Albania, Algeria, Austria, Benelux, Bosnia and Herzegovina, Bulgaria, Montenegro, Czech Republic, Egypt, Italy, Kosovo, Liberia, Hungary, Macedonia, Morocco, Germany, Poland, Romania, Russian Federation, Slovakia, Slovenia, Serbia, Swiss, Ukraine), 51 trademarks in Croatia, 23 trademarks in Slovenia, 21 in Macedonia, 25 in Bosnia and Herzegovina, 18 in Serbia, 11 in Albania, 20 in Kosovo, 18 in Montenegro, ten in Hungary, one in Belarus, as well as six industrial designs in Croatia, five industrial designs in Bosnia and Herzegovina and Slovenia, four industrial designs in Serbia, Macedonia, Montenegro and Kosovo, and INA web domain in Macedonia and Bosnia and Herzegovina.

In the year 2019, 23 new trademarks were registered in Croatia, Bosnia and Herzegovina, Slovenia, Kosovo, Montenegro, Serbia, Italy, Hungary and Belarus. Trademark protection was extended for 12 trademarks of the visual identity of service stations (Hungary) and industrial design totem (Slovenia). At the same time, the protection of the STSI logo was extended in Croatia and a new PLAVI TIM logo was implemented.

The other part of INA, d.d. intellectual property are employees and all their knowledge, ideas and skills applied in their work. The Company Knowledge Base in which one can find all information related to the creative work of INA, d.d. employees is continuously maintained.

3

OUR BUSINESSES

EXPLORATION AND PRODUCTION OVERVIEW

Achievements

- Increased our Croatia exploration acreage by 6,604 km^2 with three new blocks
- Drilled and put into production the deepest exploration well in 35 years, on our operated Egypt asset
- Kept the production decline of our mature assets below 3%

Key message from the Operating Director

"INA was awarded three exploration blocks in Croatia, increasing our acreage by 6,604 km^2. This enables us to continue with a new wave of exploration activities following our success with Drava-02 and is yet another step towards reserve replacement and business sustainability.

In Egypt we made a discovery through our deepest exploration well in 35 years. All of this was accomplished without any major HSE incidents, just as we have during the 20 years of our North Adriatic activities which we marked this year."

Tvrtko Perković
Operating Director of
Exploration and Production

Challenges

- Reserves replacement through organic and inorganic growth
- Increasing our operating efficiency and productivity
- Starting the next development phase of our North Adriatic assets

EXPLORATION AND PRODUCTION OVERVIEW

OVERVIEW AND KEY ACHIEVEMENTS FOR THE YEAR 2019

At the end of 2019, INA Group had 107 MMboe of proven and probable (2P) hydrocarbon reserves with an average daily hydrocarbon production of 33.9 Mboe.

Efficiency Improvement Program

Exploration and Production Efficiency Improvement Program was launched at the end of 2018 to be carried out in phases from 2019 to 2023 and the implementation phase started in May 2019.

The Program was intended to capture the full Exploration and Production potential through optimization of production and costs and improvement of processes. As our mature assets are facing natural production decline, the aim is to ensure the long-term sustainability of the business.

In the initial phase over 250 ideas were generated resulting in more than 100 different projects/initiatives.

The Program envisages average free cash flow increase in the amount of USD 40 million a year, capital expenditures increment of USD 10 million a year, and annual production growth of 4% from 2021 onwards. In the second half of 2019 the Program effect was USD 4 mln cash cost saving and USD 8 mln capital expenditures re-evaluation.

Croatia Onshore

Exploration

In 2019 activities on the exploration block Drava-02 continued. Commercial discovery was declared on Severovci-1 well in July. Jankovac-1 was drilled in December and well testing is expected to be performed in 2020, which will finalize the First Exploration Phase work program performed in the full scope. In December 2019 the Government of Croatia announced a decision approving INA, d.d. entrance into the Second Exploration Phase, lasting until the end of 2021.

Exploration Bid Round

INA, d.d. participated in two bid rounds, the Second Onshore Bid Round for Pannonian Basin and the Third Onshore Bid Round for Dinarides Thrust Belt. Based on geological evaluation, INA, d.d. submitted bids for four blocks in Pannonian Basin and one block in the Dinarides.

Government of Croatia awarded INA, d.d. with Exploration and Production licenses for two blocks, DR-03 and SZH-01, in the Pannonian Basin as well as one in the Dinarides, DI-14. New exploration acreage will enable exploration of the remaining Croatia onshore potential.

Field Development

Full Field Optimization (FFO) concept implementation continued in 2019 covering ten fields in total since the introduction in 2016. The FFO concept includes improvements across the entire production system – reservoir, well, pipeline network and facility performance – which are all made possible using integrated computer models. The concept implementation is planned to continue in the future, across new prospective mature onshore fields and on the fields already covered.

Idle wells revitalization concept aiming to produce additional hydrocarbon quantities by performing workover operations on idle wells successfully continued in 2019. There is very limited data available for these idle wells, such as hydrocarbon saturation and reservoir parameters required to estimate reservoir and production capacity, which makes putting these wells back into production an even greater achievement.

Capital well workover operations were performed on a total of 64 wells in 2019.

Locations for 15 new development wells have been proposed for further evaluation after interpretation of seismic data from eight fields, originally recorded in 2016.

Enhanced Oil Recovery (EOR)

EOR project in the Ivanić and Žutica North fields continued throughout 2019 and this year we marked five years since the start of CO_2 injection on Ivanić field and four years on Žutica North. Since the start of EOR, Ivanić field production has increased by 2.5 times and Žutica North 6.5 times. Over 60% of the total produced hydrocarbon volumes in the Ivanić field and 90% produced in the Žutica North field are the result of implementing EOR.

EOR Program Team has continued the integrated multidisciplinary management of the existing and future EOR projects. The Team monitors and optimizes the injection and production systems in the Ivanić and Žutica fields and will work on extending EOR technology to more fields.

New Technologies

In 2019, three linear rod pump (LRP) systems were installed with the purpose of putting idle wells back into production and improving the efficiency of artificial lift on individual wells. LRPs have proven to be very efficient, both in terms of increasing production from mature fields and in reducing operating costs.

Following encouraging results of previous years, 11 sucker-rod pump (SRP) wells were automated in 2019, raising the total number of automated wells to 78.

With the aim of reducing the number of well workovers and consequently operating costs, additional subsurface production equipment was installed on 40 SRP production wells in order to reduce rod failures. Results show a significant extension of the meantime between failures of production equipment.

The artificial lifting method in the Ivanić oil field is being changed from SRP to electrical submersible pumps (ESP) with continuous downhole corrosion inhibition. So far, a total of 18 ESPs were installed, 15 of which in 2019. This will result in significant operating cost reductions based on lower number of workovers. Also, the required production flexibility will be achieved in line with CO_2 injection cycles.

Croatia offshore

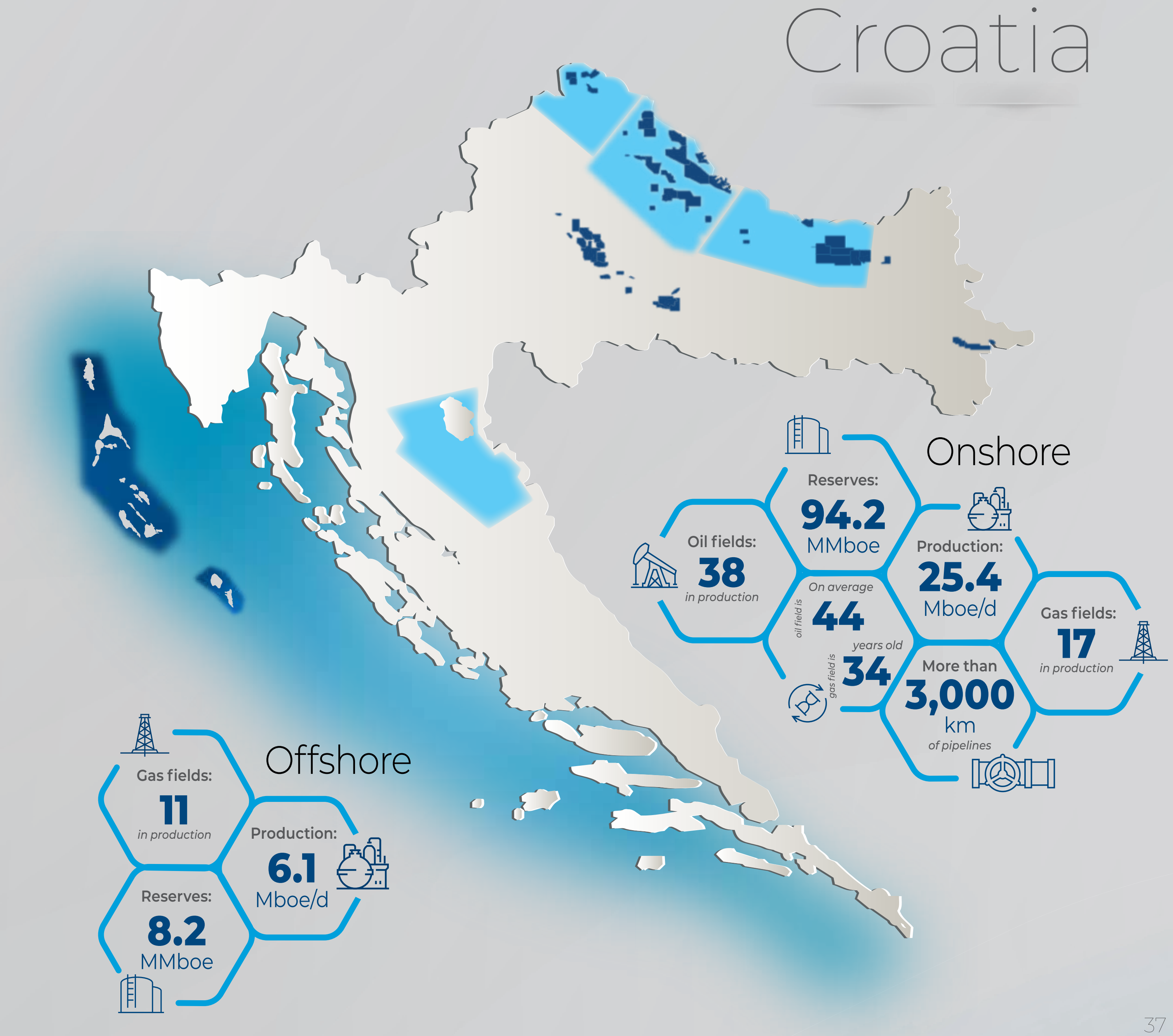
INA, d.d. is the concession holder on three exploitation fields with 11 gas fields in the Adriatic.

For the first time in its history, INA, d.d. has become the sole operator of ten gas fields through INA Jadran, d.o.o., after the acquisition of former partner Eni's share. This has increased INA's natural gas reserves and production, while also opening the door to further development. Preparations are already underway to start a multi-year drilling campaign.

Additional development of fields within the concession areas has been intensified, and a joint study with partner company Edison was made for upside gas potential evaluation in the broader northern Adriatic area in order to define further activities.

Activities on existing platforms are focused on ensuring asset integrity and operability, as well as mitigating natural production decline by reducing unplanned production downtime.

Continuous implementation of the Offshore Safety Directive ensures meeting high safety standards for offshore environment. Offshore activities were performed without any injury for six years in a row and 20 years of zero negative impact on marine environment.



Egypt

INA's assets in Egypt include one operated concession - East Yidma and three non-operated concessions with a minority stake; North Bahariya, Ras Qattara and West Abu Gharadig.

East Yidma: INA's deepest exploratory well in 35 years, Rizk-2D, was successfully drilled to a total depth of 5,613 m and was put into production in late December. Additionally, workover operations were performed on Rizk East-1 and Sidi Rahman-6 wells.

North Bahariya: Intensive drilling campaign was carried out with 15 new wells. Additionally, 34 workover jobs were performed and preparations for building the Central Processing Facilities started. Comprehensive drilling program and water injection system is expected to enable maximum reserve recovery before the license expires in 2029.

Ras Qattara: Three development wells were drilled, 16 well workovers and interventions were performed as well as flowline network upgrades, surface facilities overhaul and other related activities to maintain production.

West Abu Gharadig: Well interventions, surface facilities overhaul and upgrade as well as other related activities to maintain production were carried out.

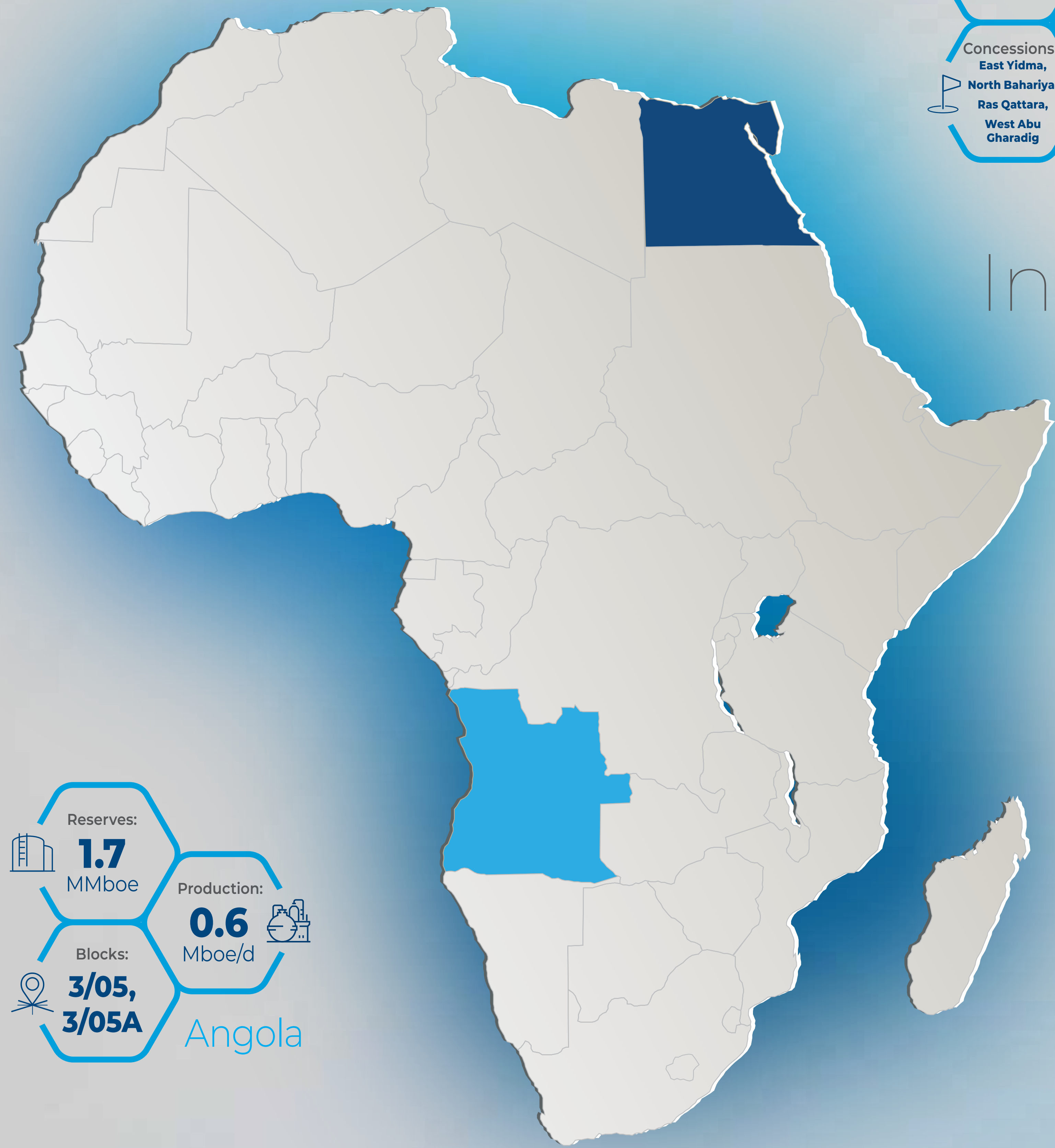
Angola

Block 3/05: Work program included facilities maintenance and preparation for major well workover campaign.

Block 3/05 A: Work program included re-evaluation process of the upside potential of the Punja field and preparation activities for restoring production. Due to technical issues during the year, there was no production on the Block.

Portfolio development

In 2019 the portfolio development activities were intensified focusing on INA's traditional regions such as MENA and South East Europe, especially Croatia and Egypt (where INA, d.d. is already present), but the scope of attention is being broadened to Ukraine and Albania, as well. Endeavours were made to identify new opportunities with sufficient potential for reserves and production growth in terms of either exploration, field development or mature field management. Selected projects of interest were mostly related to onshore exploration with low to moderate risk profile and to producing fields with immediate reserve replacement potential.



Egypt

Reserves: 2.9 MMboe

Production: 1.8 Mboe/d

Concessions: East Yidma, North Bahariya, Ras Qattara, West Abu Gharadig

International

STRATEGY AND OUTLOOK

Reserve replacement and maintaining a stable production rate remain our key priorities in order to enable sustainable growth in the future. This can be achieved by developing a diversified portfolio as a collection of both organic and inorganic projects. In 2019, INA, d.d. made a strong base for this by increasing its exploration acreage in Croatia and continued to make strong efforts to support growth in the upcoming years.

INA, d.d. will keep participating in international tenders with the aim of acquiring both discovered reserves and new exploration licenses. The outcome of such ventures will largely depend on the crude oil price trend on the market, as well as the optimal strategic fit for the company.

Regarding current assets, INA, d.d. plans to continue to utilize their full potential. The Drava-02 exploration program will continue while activities are starting on the newly acquired Croatia onshore blocks.

We will further implement our FFO concept, expand the EOR project to other onshore oil fields deemed suitable for such activities and start a field development on north Adriatic offshore assets.

EXPLORATION AND PRODUCTION OVERVIEW

FINANCIAL AND OPERATING PERFORMANCE

In 2019, EBITDA amounts to HRK 2,356 million which presents 28% decline compared to 2018. Main driver behind lower EBITDA was 10% lower Brent price which had a negative effect on oil and condensate sales revenues.

SEGMENT RESULTS*	HRK MLN			USD MLN**		
	2018	2019	CH %	2018	2019	CH %
Total revenue	4,187	3,745	(11)	667	566	(15)
EBITDA[1]	3,287	2,356	(28)	523	356	(32)
EBITDA excluding special items[2]	3,014	2,356	(22)	480	356	(26)
Profit from operations	2,256	1,149	(49)	359	174	(52)
Profit from operations excluding special items[2]	1,983	1,431	(28)	316	216	(32)
Simplified Free Cash Flow[3]	2,365	1,669	(29)	377	252	(33)
Capital expenditures	649	687	6	103	104	1

** Refers to the Exploration and Production of INA, d.d. and the following subsidiaries: Adriagas S.r.l. Milano, Croplin d.o.o., INA Adria B.V. and INA Jadran d.o.o.*
***In converting HRK figures into USD, the following average CNB rates were used: for 2018 – 6.28 HRK/USD; for 2019 – 6.62 HRK/USD*
[1] EBITDA = EBIT + Depreciation, amortization and impairment (net)
[2] 2018 result negatively impacted by HRK 18 mln of net impact of severance payments and related provisions together with the positive impact of HRK 291 mln of gain on INAGIP, d.o.o. acquisition; 2019 result was negatively impacted by HRK 282 mln impairment of assets - Croatian offshore gas fields
[3] Simplified free cash flow = CCS EBITDA excluding special items – Capital expenditures

Domestic crude oil production lower as a result of natural decline mainly on Đeletovci and Stružec fields offsetting the positive effects of additional development, well optimization and EOR project.

Natural gas production drop across both onshore and offshore fields, driven by natural decline and increased water cut on offshore field Izabela and major onshore gas fields (Deep Podravina and Vučkovec).

In Egypt, intensive workover and drilling activities resulted in higher production, while lower Angola production volumes reflect natural production decline and various technical limitations on Block 3/05.

HYDROCARBON PRODUCTION (Mboe/d)	2018	2019	CH %
CRUDE OIL PRODUCTION	**14.6**	**14.5**	**(1)**
Croatia	12.5	12.1	(3)
Egypt	1.5	1.8	20
Angola	0.6	0.6	-
NATURAL GAS PRODUCTION	**18.9**	**18.1**	**(4)**
Croatia onshore	12.4	12.0	(3)
Croatia offshore	6.5	6.1	(6)
CONDENSATE	**1.4**	**1.3**	**(7)**
Croatia	1.4	1.3	(7)
TOTAL HYDROCARBON PRODUCTION	**34.9**	**33.9**	**(3)**
AVERAGE REALISED HYDROCARBON PRICE			
Total hydrocarbon price (USD/boe)*	53	48	(9)

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

Positive revisions of 4.3 MMboe across the portfolio were offset by 2019 production volumes, resulting in decrease of 2P reserves compared to 2018.

RESERVES BREAKDOWN (MMboe)	1P		2P	
	2018	2019	2018	2019
BY COUNTRY				
Croatia onshore	76	71	100	94
Croatia offshore	6	4	11	8
Egypt	1	1	3	3
Angola	1	1	1	2
TOTAL	**84**	**77**	**115**	**107**
BY PRODUCT				
Oil	44	41	58	55
Gas	37	33	52	48
Condensate	3	3	5	4
TOTAL	**84**	**77**	**115**	**107**

CAPITAL EXPENDITURES 2019 (HRK MLN)	CROATIA	EGYPT	ANGOLA
Exploration	42	66	-
Development	279	94	8
Other	198	-	-
TOTAL	**519**	**160**	**8**

REFINING AND MARKETING OVERVIEW

Achievements

- Rijeka Refinery Upgrade Project approved (worth around HRK 4 billion)
- Crude processing concentrated to one location
- Strong market position on core markets with increased sales

Challenges

- Successfully overcome market challenges regarding the new marine fuel legislation
- Start-up of propane-propylene splitter in Rijeka Refinery
- Continued implementation of the INA Downstream 2023 New Course transformation program

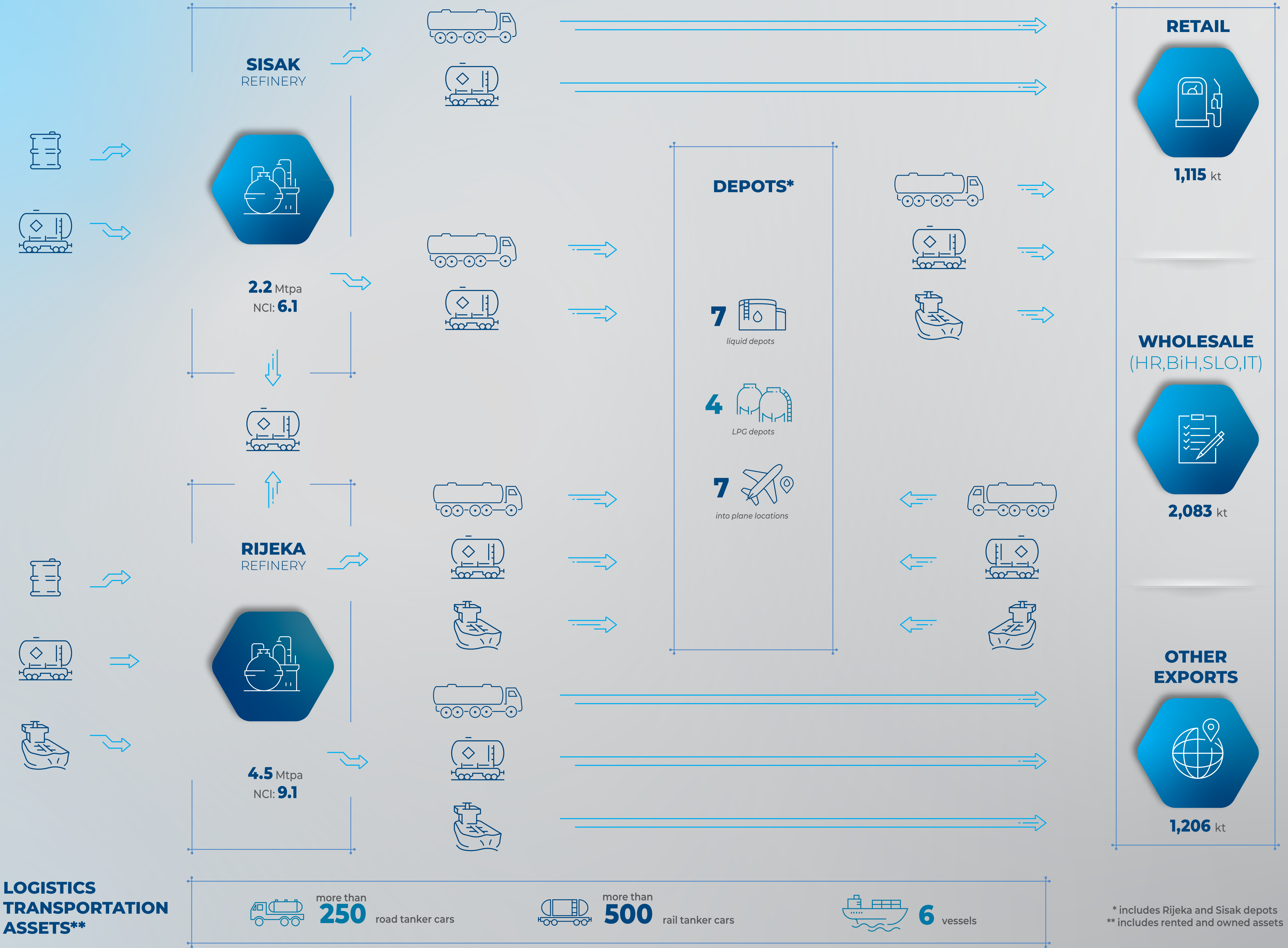
Key message from the Operating Director

"Continuing with the INA Downstream 2023 New Course program, the first half of 2019 was marked with the largest refinery turnaround in INA Group history which improved many aspects of the Rijeka Refinery. The R&M organisation was transformed, preparing the Sisak location for conversion into an industrial centre, while the remainder of the year was focused on finalising the Rijeka Upgrade EPC contract and contracting the basic design for the Bio-refinery in Sisak.

Throughout the year, the R&M sales team focused on our customers on core and regional markets which resulted in higher fuel sales.

In the upcoming period, we expect a challenging external environment driven among others by IMO regulations. Due to exceptional capabilities of our team, I have strong belief in another successful year ahead of us."

Stjepan Nikolić
Operating Director of
Refining and Marketing



SISAK
REFINERY
2.2 Mtpa
NCI: 6.1
RIJEKA
REFINERY
4.5 Mtpa
NCI: 9.1
DEPOTS*
7
liquid depots
4
LPG depots
7
into plane locations
RETAIL
1,115 kt
WHOLESALE
(HR,BiH,SLO,IT)
2,083 kt
OTHER
EXPORTS
1,206 kt
LOGISTICS
TRANSPORTATION
ASSETS**
more than
250
road tanker cars
more than
500
rail tanker cars
6
vessels
* includes Rijeka and Sisak depots
** includes rented and owned assets

REFINING AND MARKETING OVERVIEW

OVERVIEW AND KEY ACHIEVEMENTS FOR THE YEAR 2019

Commercial activities

INA, d.d. kept a strong market position with increased market share on core markets in Croatia and in Bosnia and Herzegovina. Higher sales of motor fuels were a result of strong wholesale performance and stricter regulations. Performance improved in terms of sales spreads as well. Capturing market opportunities (i.e. unplanned shut-down of the Brod Refinery) allowed for increased motor fuel sales in Bosnia and Herzegovina and Albania. Trading activities were focused on imports due to refinery turnaround to cover the demand of core markets. LPG sales increased in Slovenia. Italian motor fuel sales remained strong in 2019 with sales amounting to approximately 300 kt. Rising jet fuel demand was a driver for increased sales. Bitumen sales were significantly increased to over 50 kt supporting the project of Bitumen production in Sisak. In line with the customer needs and new legal requirements, the fuel oil product portfolio has been further diversified.

Refining operations

The beginning of the year (January-May) was marked with largest turnaround in history at the Rijeka Refinery which resulted in improved energy efficiency. During that period, processing in Sisak, supported market supply, reducing the necessity for imports. Upon restarting the operation in Rijeka, Sisak units operated by utilizing synergies between both sites (i.e. increased transfer of semi-finished products in order to better utilize conversion units in both refineries). Diversified crude supply continued in 2019 by processing a total of 12 crude grades, while at the same time increasing the share of light crude grades processed in Rijeka Refinery due to the upcoming changes in marine fuel regulation.

Logistics and Distribution

Striving for continuous improvement, the "Pay for skills" program was implemented aimed at improving competencies, flexibility, and productivity of employees with annual savings of USD 1 million. At the same time, positive effect was achieved on employee satisfaction and engagement. Intense investments continued in technical solutions to increase work safety (i.e. Fall protection at Osijek Terminal and Fire protection upgrade at Into plane Terminal Zagreb) and in safety culture development (Unconscious Behaviour Program for more than 500 employees), resulting in injury rate decrease. In 2019, continuous transfer of domestic crude was established via two channels, by rail towards Rijeka and by enabling acceptance of crude into the JANAF pipeline system at the Sisak location.

Gas and Power

INA, d.d. total natural gas sales (excluding internal consumption) amounted to 1.271 bcm, keeping INA, d.d. as one of the major suppliers on the Croatian market. By the end of June, INA, d.d. secured deliveries of natural gas for the gas year 2019/2020, ensuring the leading role for INA, d.d. among traders and suppliers in Croatia. Due to domestic production decline, the need for contracting other gas suppliers increased. With that in mind, in June, two contracts were signed with reputable suppliers ensuring flexible natural gas source on VTP Croatia with the possibility to import up to 520 mcm of natural gas per year. A yearly power procurement contract to cover the overall INA, d.d. electricity consumption was concluded as well. Approvals were issued for obtaining power trading license and for concluding frame contracts with HEP for power supply in 2021 with the possibility of extension for 2022, with different pricing models (HEPi Trader), to have better insight in the power market and optimize INA Group power costs.

Residue Upgrade Project

In December, the investment in Rijeka Refinery Upgrade Project was approved, worth altogether around HRK 4 billion. A contract on building the Delayed Coker Unit worth HRK 3.3 billion was signed between INA, d.d. and KT - Kinetics Technology S.p.A. Apart from the construction of the DCU, the project also includes construction of a coke port and storage facility, a new electrical power line and substation, and revamps of the existing units. Along with the main contractor, it is expected that Croatian companies would largely participate in the execution of the project, through design, material and equipment delivery and construction, engineering and other works. Expected construction duration is three years.

DS2023 new course

1 UPGRADE OF THE RIJEKA REFINERY

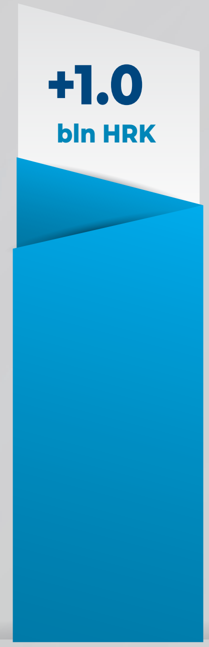
2 INDUSTRIAL SITE IN SISAK

3 STRONG REGIONAL SALES

4 FLEXIBLE AND EFFICIENT LOGISTICS

5 ENERGY EFFICIENCY AND RENEWABLES

average yearly EBITDA in the last 10 years



average yearly EBITDA after 2023

STRATEGY AND OUTLOOK

The main target of Refining and Marketing strategy is turning currently loss making segment into a highly profitable one. With that in mind, the INA Downstream 2023 New Course program was developed and launched in 2018. Results of the actions implemented in the program will result in an estimated yearly EBITDA for the segment of more than HRK 1 billion.

The main contributor to the program is the Upgrade of the Rijeka Refinery which will transform it into a modern European refinery and will ensure that INA Group keeps a strong position on the market. By completing the Residue Upgrade Project, refinery complexity and efficiency will be substantially increased, production of high value products will be maximized, which will eliminate necessity for imports, and asset utilization will be highly increased. It is a major investment that will ensure the segment's sustainability in the future.

Preparatory activities for the transformation of Sisak into an industrial center have started. Bitumen production will be reactivated in 2021, which will be a major milestone in the transformation process. Other major activities will be focused on renewable energy development at the Sisak location, including the potential construction of a bio-refinery which is of strategic importance not only for INA, d.d., but also for Croatian energy industry, and solar power plant. A safety training facility for firefighters is also planned to be constructed thus providing our employees better education on safety and improving their lifesaving skills.

Continued investments into logistic infrastructure will be focused on key market supply points thus providing the best service possible for our customers. An important step in the process will be the digitalization of processes and following the best trends on the market to support everyday operations.

When it comes to natural gas trading, the main objective is to maintain a strategic position by holding our present market position in all customer segments. Digitalization of processes has been started, which will support everyday business in becoming a role model setup for every organization. Improving customer satisfaction and being the first choice of our customers is constantly ongoing topic as one of the main pillars for successful business development.

INA, d.d. is highly focused on improvement in energy efficiency and in renewable energy utilization. Use of hydrogen as a transport fuel is a significant contributor in greenhouse gas reduction, which is one of the main focus areas for development in renewables. Others are including utilization of unused cooking oil, green fuels, carbon capture, etc.

REFINING AND MARKETING OVERVIEW

FINANCIAL AND OPERATING PERFORMANCE

In 2019, Refining and Marketing performance was affected by a deteriorating refining margin: lower Brent price (-7 USD/bbl), decreased gasoline (-14 USD/t), fuel oil (-16 USD/t), LPG (-45 USD/t) crack spreads, which were partially mitigated by higher diesel crack spread (+2 USD/t).

On the sales side, INA's fuel position on captive markets strengthened resulting in a +15% sales growth in diesel and +13% in gasoline sales. Improved commercial performance and significantly higher sales on core markets, Croatia (+217 kt) and B&H market (+68 kt) came as a result of stronger focus on wholesale, higher demand and lack of supply from the Bosanski Brod Refinery. Market supply remained stable with higher motor fuel import volumes (+633 kt) focused on meeting customer demand and substituting lower own processing during the January - May Rijeka turnaround. Supply and overall performance was further supported by improved refinery yields driven by processing of lighter crudes. The segment realized considerably better results compared to the previous year in terms of Clean CCS EBITDA where improved sales performance and internal improvements offset lower processing and a poor external environment. The problem of asset configuration and production overcapacity with two refineries compared to core market demand persists as cash flow remains negative. Transformation of the segment is ongoing as is visible through the significantly increased investments (i.e. investment turnaround at the Rijeka Refinery) in 2019 and will continue over the next few years.

Refining and Marketing capital expenditures significantly increased and amounted to HRK 1,071 million compared to HRK 857 million in 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. 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.

A significant milestone was also reached in the Rijeka Refinery Upgrade Project by obtaining the Final Investment Decision (FID) for the project and signing the contract to start implementation.

SEGMENT RESULTS*	HRK MLN			USD MLN**		
	2018	2019	CH %	2018	2019	CH %
Total revenue	21,420	21,530	1	3,411	3,252	(5)
EBITDA[1]	419	519	24	67	78	16
EBITDA excluding special items[2]	461	519	13	73	78	7
CCS-based DS EBITDA excluding special items[2]	286	557	95	46	84	83
Loss from operations	(158)	(229)	45	(25)	(35)	40
Loss from operations excluding special items[2]	(116)	(229)	97	(18)	(35)	94
CCS-based DS loss from operations	(291)	(191)	(34)	(46)	(29)	(37)
Simplified Free Cash Flow[3]	(784)	(779)	(1)	(125)	(118)	(6)
Capital expenditures	1,070	1,336	25	170	202	19
o/w Refining and Marketing	857	1,071	25	136	162	19

** 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., 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.*
*** In converting HRK figures into USD, the following average CNB rates were used: for 2018 – 6.28 HRK/USD; for 2019 – 6.62 HRK/USD*
[1] EBITDA = EBIT + Depreciation, amortization and impairment (net)
[2] In 2018, result was negatively impacted by HRK 42 mln of special items related to severance payment and related provision
[3] Simplified free cash flow = CCS EBITDA excluding special items – Capital expenditures

REFINING AND MARKETING INCLUDING CONSUMER SERVICES AND RETAIL	2018	2019	CH %
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	**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
Bosnia and Herzegovina	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 (mcm)	**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*

CONSUMER SERVICES AND RETAIL OVERVIEW

Key message from the Operating Director

"The focus of Consumer Services and Retail in 2019 was on maintaining and strengthening the leading position on our key markets. This was achieved by developing a wide and targeted range of gastronomic products and services, increasing level of consumer service and continued focus on the quality of our products in both fuel and non-fuel segments. This has contributed to the continued strengthening of the INA brand among the consumers.

In New Businesses, the emphasis was put on preparing and developing various projects that upgrade INA's core and traditional business activities and upgrading our network with EV chargers to deliver on this new consumer need."

Vlatko Dujanić
Operating Director of Consumer Services and Retail

Achievements

- Maintaining the market leader position and market share in Croatia and strengthening the INA brand in Montenegro and B&H
- Strengthening the positive consumer perception of INA Group by providing top fuel quality along with the installation of additional EV chargers at INA Group service stations
- Developing top gastronomic offer for people on the go with high level of consumer service

Challenges

- Increasing the number of service stations in Croatia and abroad with expansion of our Fresh Corner brand
- Developing the infrastructure of the future growth in digitalization and use of the new technologies at retail locations
- Within New Businesses continued development of projects related to renewable energy sources in cooperation with startup community and through ANI program

OVERVIEW AND KEY ACHIEVEMENTS FOR THE YEAR 2019

Consumer Services and Retail

In 2019, a big step up was achieved in the area of network development. Fuelled by an inspiring vision and new end-to-end organizational structure, the number of projects completed in 2019 and the quality of execution significantly increased, while the pipeline for the next years was also strengthened.

The company is aware that business operations and customer interaction, especially when it comes to younger generations, are increasingly taking place in the digital sphere. Modern digital tools allow us to respond more quickly and more conveniently to our customers' needs. For this reason, we have initiated digitization activities for our daily business operations along with several projects, such as: Pay@FRANKE coffee, Pay@pump, Mobile payment solutions, Self-checkout, Digital signage, POS enhancements, etc. with the goal of better interaction with our existing customers, attracting new ones and overall increasing the convenience and consumer satisfaction.

In addition, to meet our customers' energy needs, we have begun building high performance infrastructure and coverage for alternative fuel vehicles by installing electric vehicle charging stations next to service stations. This has been achieved through the partnership with HEP d.d. and HAC d.o.o. For now, these stations are primarily located on highways, with installations already placed on 17 locations and a total of 23 fast chargers in operation.

In 2019, implementation of non-fuel strategy continued through further implementation of a new layout for service stations, along with the continued development of the Fresh Corner concept. This concept, very well received by consumers, is now present on more than 66% of our service stations. We have developed and continue improving our gastronomic offer for people on the go by offering premium coffee, sandwiches and simple meals in a comfortable setting in accordance with the requirements of our customers. The improvements in shop assortment and offer in general also continued through planogram maintenance, shelf management and optimization of space on service stations. The result was over performance (market share increase) vs. the channel across the grocery categories. The goal is to continue the sales and market share growth by further strengthening FMCG capabilities: category management, negotiation skills, sales operations and shelf management, and becoming the best in class convenience retailer for people on the go.

Continuation of modernization program, capital reconstruction, opening of new service stations, installation of additional LPG units as well as expanding the concept of Fresh Corner within the retail network resulted in positive achievements both in fuel and non-fuel performance.

Fuel and non-fuel marketing and promotional activities on service stations were focused on promoting the quality of our products, increasing trial and building loyalty. Several integrated marketing campaigns were implemented, including: Arktik campaign, fuel image campaign, prize winning game, Fresh Corner navigational campaign, Fresh Corner coffee campaign, Fresh Corner tourist season - vouchers, LPG promo, etc. The marketing campaigns helped in strengthening our brand image and driving our sales results.

Implementation of the SMILE program, the world class training program for the sales staff, successfully continued through practical trainings for sales area managers and service station employees. In addition to the SMILE program, with the aim of improving the quality of sales operations and customer service, increased number of gastro training on retail locations, e-learning platform, and launching of the Sales Area Manager Competence Academy were introduced.

New Businesses

Development of new business lines is another strategic course in upgrading INA's value chains. This development is reflected in entering potentially profitable business activities that are not within the range our traditional activities. Therefore, New Businesses were established as a special business unit, with a task of developing new business opportunities beyond the core activities of the Company.

Key development areas were crystallised during 2019 and first projects were launched. Significant progress was made in development of projects in the renewable energy sources domain, primarily solar energy, where two large projects were identified and for which all preparations were made in the sense of obtaining necessary permits for their realisation in the following years. We also built foundations for future development in the field of renewable energy sources from geothermal potential, as well as from the power of the sun and wind.

ANI program of INA's involvement in the start-up community was also launched in 2019. ANI is an abbreviation of Acceleration of New Ideas, but also INA spelled backwards, sending a message that we wish to address our business challenges in a different way and become distinguished in the community, which is often a driver of major changes and a source of new ideas. In cooperation with our partners, we attracted more than 150 start-ups to apply for participation in our program, of which 35 entered the pre-acceleration program. ANI's success mirrors in a changed perception of INA Group in this community, where we have become a desirable partner, opened towards innovation and new technologies.

STRATEGY AND OUTLOOK

Our strategic framework for 2020 and beyond is built on the positive learnings from the past and directed to capture the key market opportunities in front of us. Our strategic objectives are to:

- Serve our current customers even better and more completely
- Profitably expand our business in the region
- Attract and retain future customers

In line with our strategic priorities, we have outlined the four key priorities:

1. New growth locations (Greenfields, acquisitions and rentals) with a goal to secure and increase INA's market share in Croatia and across the region
2. Continued modernization of our network with the focus on the expansion of the Fresh Corner brand and our gastro services
3. Increase the service level toward our consumers and thus further strengthen INA brand
4. Increase the penetration of the EV chargers across our network in Croatia

Implementation of these priorities will secure stable sales and profit growth as well as drive consumer's satisfaction and loyalty.

CONSUMER SERVICES AND RETAIL OVERVIEW

FINANCIAL AND OPERATING PERFORMANCE

Total retail sales amounted to 1,115 kt, representing a 3% increase compared to 2018, which was also influenced by network growth. Six new retail locations were opened in Montenegro, two in Bosnia and Herzegovina and three in Croatia. In correlation with the increased demand and market dieselization, diesel and gas oil sales grew by 5% (39 kt), while gasoline sales dropped by 2% (5 kt). Fuel sales were driven by capital reconstruction and modernization programs and the opening of new service stations, including the installation of additional LPG units.

Revenue from non-fuel margin increased by 17% as a result of increased focus on gastro segment, the continued expansion of consumer goods offers, implementation of the Fresh Corner concept and development of additional services on service stations.

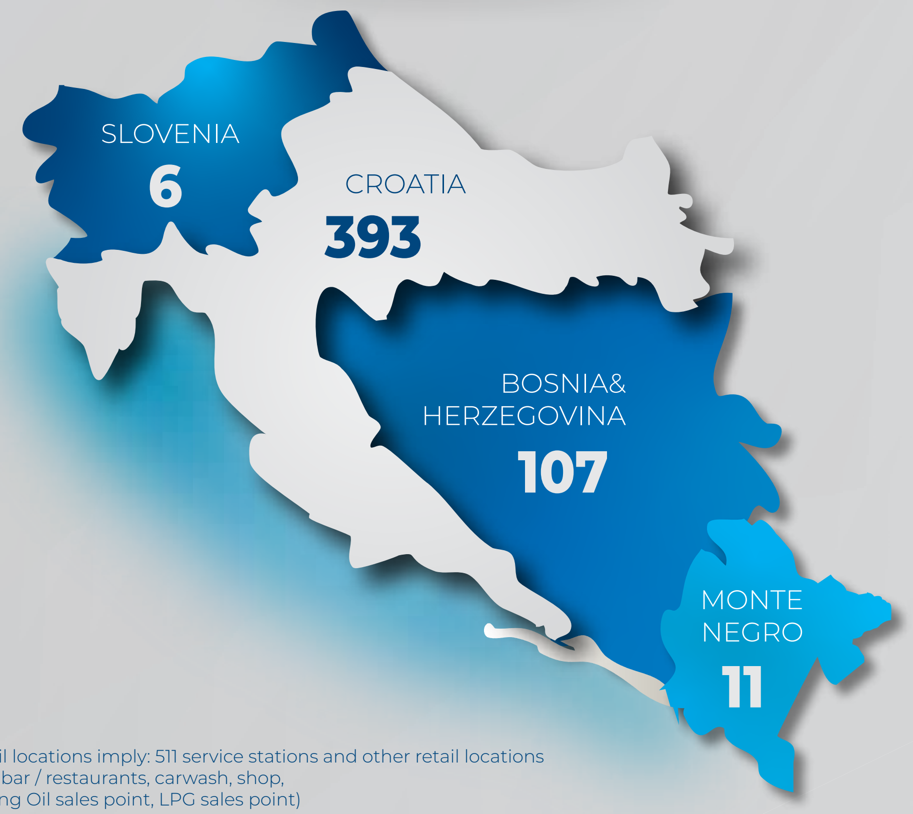
As of 31 December 2019, INA Group operated a network of 517 retail locations - 393 in Croatia (of which 60 have been included in the Partnership System Operation of Retail Sites), 107 in Bosnia and Herzegovina (53 in Holdina d.o.o. and 54 in Energopetrol d.d.), 11 in Montenegro and six in Slovenia.

Retail capital expenditures amounted to HRK 265 million compared to HRK 213 million in 2018. In 2019, over 140 investments projects were completed in INA Group Consumer Services and Retail. 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 expansion of non-fuel offer through Fresh Corner concept.

CONSUMER SERVICES AND RETAIL	2018	2019	CH %
RETAIL SALES (kt)			
Gasoline	278	273	(2)
Gasoil	775	813	5
Autogas	12	13	8
Other	17	16	(6)
TOTAL RETAIL SALES	**1,082**	**1,115**	**3**
NON-FUEL MARGIN (HRK MLN)	**294**	**345**	**17**
NUMBER OF RETAIL LOCATIONS*	**506**	**517**	**2**
CAPITAL EXPENDITURES (HRK MLN)	**213**	**265**	**24**

**Retail locations imply: 511 service stations and other retail locations (auto bar / restaurants, carwash, shop, Heating Oil sales point, LPG sales point)*

NUMBER OF RETAIL LOCATIONS



*Retail locations imply: 511 service stations and other retail locations (auto bar / restaurants, carwash, shop, Heating Oil sales point, LPG sales point)

4

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW OF THE MACROECONOMIC AND INDUSTRY ENVIRONMENT

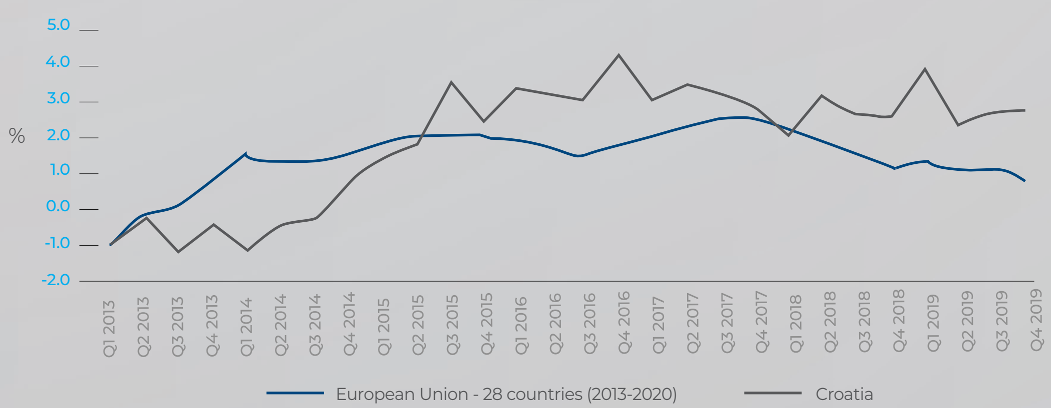
THE GLOBAL ECONOMY

Global GDP growth has slowed down in 2019 to 3%, marking the lowest growth rate since 2009 in the aftermath of the global financial crisis. The downturn in economic activity has been highly synchronized, with growth trending down in virtually all major economies. The main reason behind the sluggish growth has been the sharp and geographically broad-based slowdown in manufacturing and global trade. The intensification of trade tensions between the US and China coupled with higher policy uncertainty and increased geopolitical risks have negatively affected global value chains as well as the business sentiment and confidence globally, keeping investments low last year. By contrast, private consumption held up relatively well for most countries during the year, supported by favorable financing conditions, firm labor markets and modest inflationary pressures.

The sharp downturn in global merchandise trade growth in 2019 was mainly driven by the contraction in import demand from China and the other emerging Asian economies. However, the growth downgrade of China reflects not only the negative impact of escalating tariffs but also slowing domestic demand despite government efforts to support the economy. The slowdown in Chinese growth is structural as the economy is simultaneously facing unsustainably high domestic debt levels, the challenge of moving to a more consumption and innovation-based growth model in a challenging external environment.

Across developed economies, the growth momentum has slowed considerably. The United States economy continues to grow, but at a visibly slower pace. Even though Boeing's troubles, trade disruption, fading impact of the fiscal stimulus and a tight job market held back growth last year, growth has been surprisingly solid, compared to other advanced countries. Although the economic expansion in the euro area is now the longest on record since the introduction of the euro, its pace has become rather subdued. The manufacturing and export-led slowdown was particularly severe in Germany. Europe's largest economy has turned from a growth engine to one of the region's weakest performers. Uncertainty over Brexit, strikes in France and an underperforming Italian economy also weighed on eurozone growth in 2019. In contrast, CEE economies are standing firm. Solid rates of growth in the region, including Hungary, reflected strong domestic demand, which provided some offsetting support to the weakness of the external environment.

GROWTH RATES OF GDP, YEAR-ON-YEAR



CROATIA'S ECONOMY IN 2019

Economic activity in Croatia has accelerated in the first half of 2019, following a relative weakness in 2018. The main contributor to GDP is domestic demand, with strong household consumption due to rising wages and low inflation (helped by a reduction in the VAT rate on some food products), but also by investments, which is supported by increasing use of EU funding in both public and private sectors. Net external trade is set to be a drag because imports are growing faster than exports. Uncertainties around global trade and the weakening economic performance in some of Croatia's main trading partners are negatively impacting goods exports. In 2019 the GDP growth of Croatia was 2.9%, up from 2.6% in 2018.

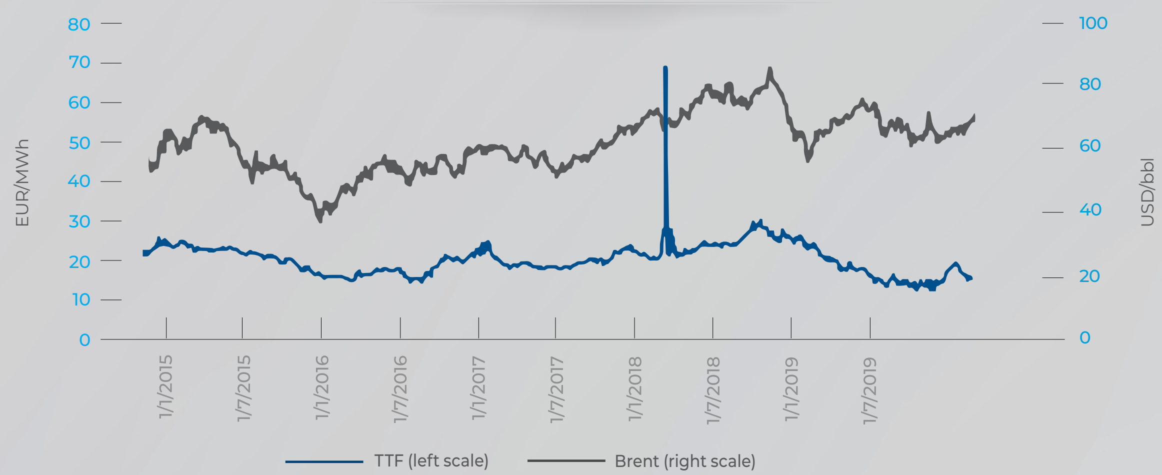
Labor markets are favorable, the unemployment rate is at its lowest level and is expected to further decrease, although signs of labor shortage are visible in some sectors. Public finances are healthy, with the general government balance expected to remain in surplus.

GLOBAL OIL AND GAS MARKET FUNDAMENTALS

In 2019 the price of Brent (FOB spot) averaged at 64 USD/bbl, 10% lower than the average of 2018. Brent oil prices briefly spiked to 73 USD/bbl in the aftermath of the Abqaiq attack but they quickly reverted to below pre-attack levels as a result of the remarkably quick restoration of Saudi supplies. Although OPEC+ production cuts and supply disruptions as well as geopolitical risks provided support for prices, worries related to the oil demand outlook - due to the slowing global economy and the worldwide large refinery maintenance program to prepare for the IMO bunkering fuel specification change - and still strong non-OPEC+ production growth pulled prices down.

At the same time, the global gas markets have seen historically low prices due to a global oversupply of LNG. Global LNG export capacities have increased by about 8% in 2019, mainly in the United States, Australia and Russia, at a time when demand growth slowed compared to previous years. Asian LNG demand growth stalled in 2019 after several years of strength. Mild winter weather conditions in Asia played an outsized role in the demand weakness, coming mainly from China, South Korea and Japan. While the low level of pricing did not bring about substantive coal-to-gas switching within Asia, it forced LNG cargoes to shift into the European market. The resulting increase in LNG supply into Europe swelled gas stocks to near capacity, forcing a maximization of coal-to-gas switching, with even lignite being displaced by gas. Coal-to-gas switching was aided also by European carbon prices of near 30 EUR/mt. All in all, European consumers benefited from the global supply glut, absorbing the LNG surplus at historically low prices.

OIL AND NATURAL GAS PRICES



MAIN EXTERNAL PARAMETERS	2018	2019	CH %
CRUDE OIL PRICES			
Brent dtd (USD/bbl)	71	64	(9.9)
Brent-Ural spread (USD/bbl)	1.09	0.43	(60.6)
FOB MED PRODUCT 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	6.62	5.4
HRK/USD closing	6.47	6.65	2.8
HRK/EUR average	7.41	7.41	-
HRK/EUR closing	7.42	7.44	0.3
3m USD LIBOR (%)	2.31	2.33	0.9
3 m EURIBOR (%)	(0.32)	(0.36)	12.5

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

FINANCIAL RISK MANAGEMENT

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INA Group continuously monitors and manages financial risks. In accordance with the internal procedures, INA, d.d. and its consolidated subsidiaries manage and maintain commodity, foreign exchange and interest rate risk at an acceptable level, allowing INA Group to achieve its strategic objectives while protecting the future financial stability and flexibility of INA Group.

In addition to financial (market) risks, the most important risks include credit risk and liquidity risk.

MARKET RISK

Commodity price risk

INA, d.d. purchases crude oil and oil products on a spot market in USD, mostly using short-term credit facility arrangements. The required quantities of natural gas were purchased in EUR based on spot prices. Derivative instruments are available for managing company's commodity exposure. As at 31 December 2019, INA, d.d. had opened short-term forward commodity swap transactions to hedge its exposure to changes in inventory levels and pricing periods.

Foreign currency risk

Many INA Group's transactions are priced and denominated in a foreign currency. Thus, INA Group is exposed to foreign currency risk. INA Group has net long USD and EUR and net short HRK exposure of operative cash flow position. INA, d.d. may use cross currency swaps to adjust the currency mix of its debt portfolio. As at 31 December 2019, there were no open cross currency swap transactions.

Interest rate risk

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 interest rate developments. INA, d.d. may use interest rate swap to manage the interest rate risk. As at 31 December 2019, there were no open interest rate swap transactions.

Other price risks

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

CREDIT RISK

When selling goods and services on a deferred payment term, credit risk is present. Credit risk means a risk that the counterparty will default on its contractual obligations, i.e. risk of non-payment. According to internal procedures, customer credit risk is estimated by internal credit assessment model and, additionally, by external creditworthiness assessment agencies. Depending on their creditworthiness, customers provide payment security instruments. There is no significant credit risk exposure of INA Group that is not covered by payment security instruments, other than the exposure toward the institutions and entities controlled by the state and the local government, and customers under certain concession agreements abroad. In addition to the above stated, in order to minimize credit risk, INA Group also uses credit risk insurance services, services of agencies and attorneys-at-law offices for "out of- court" collection of receivables.

LIQUIDITY RISK

102-11

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

As at 31 December 2019, INA Group's contracted and available short-term credit lines amounted 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, while the contracted and available long-term credit lines amounted to HRK 2,659 million (CNB middle rate).

SUMMARY OF 2019 FINANCIAL RESULTS

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INA Group revenue from contracts with customers 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 Group. 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.

Capital expenditures were higher by 18% in 2019 year-on-year and amounted to HRK 2,150 million, with increased investments in Refining and Marketing. Gearing ratio amounted to 19% with net debt standing at HRK 2,554 million at the end of 2019.

INA GROUP FINANCIAL RESULTS	HRK MLN			USD MLN*		
	2018	2019	CH %	2018	2019	CH %
Revenue from contracts with customers	22,349	22,597	1	3,559	3,413	(4)
EBITDA[1]	3,489	2,859	(18)	556	432	(22)
EBITDA excluding special items[2]	3,291	2,859	(13)	524	432	(18)
CCS EBITDA excluding special items	3,116	2,897	(7)	496	438	(12)
Profit from operations	1,687	725	(57)	269	110	(59)
Profit from operations excluding special items[2]	1,489	1,007	(32)	237	152	(36)
CCS profit from operations excluding special items[2]	1,314	1,046	(20)	209	158	(24)
Net loss from financial activities	(167)	(76)	(54)	(27)	(11)	(59)
Profit for the year attributable to the owners of the Company	1,178	486	(59)	188	73	(61)
Profit for the year excluding special items[2]	980	768	(22)	156	116	(26)
Simplified Free Cash Flow[3]	1,299	747	(42)	207	113	(45)
Net cash inflow from operating activities	2,831	2,835	-	451	428	(5)
Earnings per share						
Basic and diluted earnings per share (HRK per share)	117.75	48.57	(59)	18.75	7.34	(61)
Net debt	1,669	2,554	53	258	384	49
Gearing ratio (%)	12	19				
Capital expenditures	1,817	2,150	18	289	325	12
o/w Domestic	1,531	1,829	19	244	276	13
o/w International	286	321	12	46	48	4

*In converting HRK figures into USD, the following average CNB rates were used: for 2018 – 6.28 HRK/USD; for 2019 – 6.62 HRK/USD; as at 31 December 2018 – 6.47 HRK/USD; as at 31 December 2019 – 6.65 HRK/USD

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

[2] 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, d.o.o. acquisition; 2019 result was negatively impacted by HRK 282 mln impairment of assets - Croatian offshore gas fields

[3] Simplified free cash flow = CCS EBITDA excluding special items – Capital expenditures

KEY FINANCIAL DATA BY BUSINESS SEGMENTS	HRK MLN			USD MLN*		
	2018	2019	CH %	2018	2019	CH %
TOTAL REVENUE						
Exploration and Production	4,187	3,745	(11)	667	566	(15)
Refining and Marketing including Consumer Services and Retail	21,420	21,530	1	3,411	3,252	(5)
Corporate and other	1,829	2,139	17	291	323	11
Inter-segment transfers and consolidation adjustments	(5,087)	(4,817)	(5)	(810)	(728)	(10)
TOTAL	**22,349**	**22,597**	**1**	**3,559**	**3,413**	**(4)**
EBITDA[1]						
Exploration and Production	3,287	2,356	(28)	523	356	(32)
Refining and Marketing including Consumer Services and Retail	419	519	24	67	78	16
Corporate and other	(88)	26	N.A.	(14)	4	N.A.
Inter-segment transfers and consolidation adjustments	(129)	(42)	(67)	(21)	(6)	(71)
TOTAL	**3,489**	**2,859**	**(18)**	**556**	**432**	**(22)**
EBITDA EXCLUDING SPECIAL ITEMS[2]						
Exploration and Production	3,014	2,356	(22)	480	356	(26)
Refining and Marketing including Consumer Services and Retail	461	519	13	73	78	7
Corporate and other	(55)	26	N.A.	(9)	4	N.A.
Inter-segment transfers and consolidation adjustments	(129)	(42)	(67)	(21)	(6)	(71)
TOTAL	**3,291**	**2,859**	**(13)**	**524**	**432**	**(18)**
PROFIT/(LOSS) FROM OPERATIONS						
Exploration and Production	2,256	1,149	(49)	359	174	(52)
Refining and Marketing including Consumer Services and Retail	(158)	(229)	45	(25)	(35)	40
Corporate and other	(282)	(154)	(45)	(45)	(23)	(49)
Inter-segment transfers and consolidation adjustments	(129)	(41)	(68)	(21)	(6)	(71)
TOTAL	**1,687**	**725**	**(57)**	**269**	**110**	**(59)**
PROFIT/(LOSS) FROM OPERATIONS EXCLUDING SPECIAL ITEMS[2]						
Exploration and Production	1,983	1,431	(28)	316	216	(32)
Refining and Marketing including Consumer Services and Retail	(116)	(229)	97	(18)	(35)	94
Corporate and other	(249)	(154)	(38)	(40)	(23)	(43)
Inter-segment transfers and consolidation adjustments	(129)	(41)	(68)	(21)	(6)	(71)
TOTAL	**1,489**	**1,007**	**(32)**	**237**	**152**	**(36)**
PROPERTY, PLANT AND EQUIPMENT						
Exploration and Production	5,228	4,932	(6)	808	742	(8)
Refining and Marketing including Consumer Services and Retail	6,069	6,674	10	938	1,004	7
Corporate and other	1,385	1,422	3	214	214	-
Inter-segment transfers and consolidation adjustments	(398)	(461)	16	(62)	(69)	11
TOTAL	**12,284**	**12,567**	**2**	**1,899**	**1,890**	**(1)**

**In converting HRK figures into USD, the following average CNB rates were used: for 2018 – 6.28 HRK/USD; for 2019 – 6.62 HRK/USD; as at 31 December 2018 – 6.47 HRK/USD; as at 31 December 2019 – 6.65 HRK/USD*

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

[2] 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, d.o.o. acquisition; 2019 result was negatively impacted by HRK 282 mln impairment of assets - Croatian offshore gas fields

SUMMARY OF 2019 FINANCIAL RESULTS

Intersegment profit eliminations

Intersegment transfers and consolidation adjustments indicate 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 (41) million compared to HRK (129) million in 2018.

INA Group Consolidated Statement of Financial Position

INA GROUP CONSOLIDATED STATEMENT OF FINANCIAL POSITION (HRK MLN)	31 DEC 2018	31 DEC 2019	CH %
ASSETS			
Non-current assets			
Intangible assets	644	635	(1)
Property, plant and equipment	12,284	12,567	2
Right-of-use asset	-	342	N.A.
Investments in associates and joint venture	150	160	7
Other investments	16	17	6
Long-term receivables	732	898	23
Deferred tax assets	1,199	1,035	(14)
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
Corporate income tax receivables	8	16	100
Other current assets	174	136	(22)
Marketable securities	27	-	(100)
Cash and cash equivalents	422	606	44
	5,234	**5,226**	**-**
Held-for-sale assets	4	6	50
Total current assets	**5,238**	**5,232**	-
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 owners of the Company	**11,814**	**11,204**	**(5)**
Non-controlling interest	9	12	33
Total equity	**11,823**	**11,216**	**(5)**
Non – current liabilities			
Long-term loans	4	-	(100)
Long-term lease liabilities	-	276	N.A.
Other non-current liabilities	45	40	(11)
Employee benefit obligation	77	70	(9)
Provisions	3,462	3,716	7
Deferred tax liabilities	14	15	7
Total non–current liabilities	**3,602**	**4,117**	**14**

INA GROUP CONSOLIDATED STATEMENT OF FINANCIAL POSITION (HRK MLN)	31 DEC 2018	31 DEC 2019	CH %
Current liabilities			
Bank loans	2,087	3,160	51
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 benefit 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**

In the period ended 31 December 2019, INA Group added HRK 132 million in intangible assets. The effect of amortization equals HRK 45 million.

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

Inventories amounted to HRK 2,299 million, and have decreased by 13% compared to 31 December 2018, mainly imported crude oil and semi-finished 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, INA Group total assets amounted to HRK 21,532 million, 4% higher compared to 31 December 2018.

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.

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

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. Gearing ratio increased from 12% as at 31 December 2018, to 19% as at 31 December 2019.

SUMMARY OF 2019 FINANCIAL RESULTS

INA Group Consolidated Statement of Profit or Loss

INA GROUP CONSOLIDATED STATEMENT OF PROFIT OR LOSS (HRK MLN)	2018	2019	CH %
Revenue from contracts with customers	22,349	22,597	1
Capitalised value of own performance	416	466	12
Other operating income	529	234	(6)
Total operating income	**23,294**	**23,297**	**-**
Changes in inventories of finished products and work in progress	365	(160)	(144)
Cost of raw materials and consumables	(12,033)	(8,460)	(30)
Depreciation, amortization 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
Cost of other goods sold	(3,605)	(7,114)	97
Impairment charges (net)	165	(109)	(166)
Provision for charges and risks (net)	(13)	126	N.A.
Total operating expenses	**(21,607)**	**(22,572)**	**4**
Profit from operations	**1,687**	**725**	**(57)**
Finance income	54	104	93
Finance costs	(221)	(180)	(19)
Net loss from financial activities	**(167)**	**(76)**	**(54)**
Share of 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 for the year	**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)	117.75	48.57	(59)

Revenue from contract with customers in 2019 amounted to HRK 22,597 million and was 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.

Other operating costs realized in 2019 include:

- Depreciation, amortization and impairment (net) in the amount of HRK 2,134 million was 18% higher than previous year
- Other material costs were lower by 3%, whereby 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
- Impairment and provisions had a positive effect in the amount of HRK 17 million and were lower than HRK 152 million of positive impact in 2018

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.

Net loss from financial activities was mainly a result of:

- Net foreign exchange loss which reached HRK 25 million in 2019, while in 2018 net foreign exchange loss reached HRK 52 million
- Interest expense amounted to HRK 80 million and interest income to HRK 4 million in 2019, while in 2018 interest expense amounted to HRK 95 million and interest income amounted to HRK 3 million
- Other financial net income amounted to HRK 25 million compared to HRK 23 million of financial expenses in 2018

Income tax expense in 2019 amounted to HRK 170 million compared to HRK 343 million 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.

INA Group Consolidated Statement of Cash Flows

INA GROUP CONSOLIDATED STATEMENT OF CASH FLOWS (HRK MLN)	2018	2019	CH %
Net cash inflow from operating activities	2,831	2,835	-
Net cash used for investing activities	(2,242)	(2,516)	12
Net cash used in financing activities	(619)	(146)	(76)
Net (decrease)/increase in cash and cash equivalents	**(30)**	**173**	**N.A.**

Net cash inflow from operating activities before movements in working capital 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 34 million, due to:

- Decreased value of inventories in the amount of HRK 322 million mainly related to imported crude oil (HRK 67 million) and semi-finished products (HRK 163 million)
- Increase in receivables in the amount of HRK (389) million mainly related to crude oil export
- ncrease in trade and other payables which amounted to 101 HRK million

Net cash used for investing activities amounted to HRK (2,516) million of outflows, compared to HRK (2,242) million outflows in 2018 mainly reflecting intensive investments in refining operations.

Impact of special items on profit from operations and EBITDA of INA Group

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 Group has adopted the materiality level for the special items in the amount of USD 10 million or more. If special items reach materiality level on cumulative basis, previous quarters are restated. Furthermore, in accordance with the adopted accounting policies and IFRS 36 – Impairment of Assets, INA Group performs impairment testing at the end of each reporting period if impairment indicators are assessed as significant. In 2019, the result was negatively impacted by HRK 282 million of special items related to impairment of assets - Croatian offshore gas fields, due to lower gas prices.

SPECIAL ITEMS IN PROFIT/(LOSS) FROM OPERATIONS AND EBITDA (IN HRK MLN)	2018	2019
INA GROUP		
Total impact of special items on profit from operations	198	(282)
Total impact of special items on EBITDA	198	-
EXPLORATION AND PRODUCTION		
Total impact of special items on profit from operations	273	(282)
Total impact of special items on EBITDA	273	-
Severance payment and net provisions	*(18)*	-
Gain on INAGIP, d.o.o. acquisition	*291*	-
Impairment of assets - Croatian offshore gas fields	-	*(282)*
REFINING AND MARKETING INCLUDING CONSUMER SERVICES AND RETAIL		
Total impact of special items on loss from operations	(42)	-
Total impact of special items on EBITDA	(42)	-
Severance payment and net provisions	*(42)*	-
CORPORATE FUNCTIONS		
Total impact of special items on loss from operations	(33)	-
Total impact of special items on EBITDA	(33)	-
Severance payment	*(33)*	-

SUBSEQUENT EVENTS

COVID - 19 impact

Due to COVID-19 pandemic INA Group has implemented all necessary health and safety preventive measures in our businesses and sites, in order to protect, foremost, our employees and customers. These measures support social distancing, increase hygiene and usage of protective equipment, as well as the changing of shift patterns and the switch to home office wherever possible.

Furthermore, due to market developments which include drop in oil prices, introduction of measures against COVID-19 and demand drop, INA Group has switched to the crisis model during April 2020 and has introduced operational and financial measures, keeping the production on-going and the market supply safe.

The above stated situation regarding COVID-19 has no impact on the published financial statements, while the exact effects for 2020 cannot be estimated at present.

In Exploration and Production segment, production has been uninterrupted and going as planned, however sharp drop in crude oil prices has significant impact on business profitability and cash flow. Due to the reduced cash flow generation investment projects for the upcoming period, profitability of existing fields and operational costs are reviewed to adjust the operation to the changed external environment. Lockdown in core markets have resulted in a significant drop in demand for key product groups, which will have a negative impact on cash flow of the Refining and Marketing segment. This creates operational challenges and continuous optimization across the assets. Safe supply of products in all core markets is ensured and remains INA's top priority. INA Group Consumer Services and Retail witnessed declining sales, primarily in fuel segment, with the reduced travel needs of the general public and slowdown in economic activity. This resulted in demand decrease during April 2020. INA Group has refocused operations to provide reliable and safe supply across our network and remain cash flow positive in the segment.

In order to maintain financial stability and ensure sustainability of operations on the long run INA Group will implement a number of measures. Comprehensive review of operational expenditure will be made to preserve cash flow, and some of the planned capital spending will be adjusted until the economic lockdown caused by the emergency measures ceases. INA management stays committed to INA DS New course 2023.

BRANCH AND REPRESENTATIVE OFFICES

Branch and representative offices as at 31 December 2019:

COMPANY	BRANCH OFFICE/REPRESENTATIVE OFFICE
INA, d.d.	Branch Office Damascus, Syria
	Branch Office Cairo, Egypt
	Representative Office Luanda, Angola
	Representative Office Moscow, Russia
CROSCO d.o.o.	Branch Office Zadar
	Branch Office CROSCO Naftni Servisi D.O.O. Dega Tirana
	CROSCO Integrated Drilling & Well Services Co. Ltd. - G.S.P.L.A.J. Branch
	CROSCO Integrated Drilling & Well Services Co. Ltd. - Syrian Branch Office, Damascus
	CROSCO Naftni Servisi d.o.o. - Prestations Petrolieres (in the reactivation process)
	CROSCO Integrated Drilling & Well Services Co. Ltd. - Egyption Branch, Cairo
	CROSCO Integrated Drilling & Well Service Co. Ltd. - Hungarian Branch Office - Magyarorszagi Fioktelepe
	CROSCO Integrated Drilling & Well Services Co. Ltd. - Azerbaijan Branch Office (in the reactivation process)
	CROSCO Integrated Drilling & Well Service Co. Ltd. - Italian Branch Office
Rotary Zrt.	Branch Office Erbil, Iraq
	Branch Office Albania
STSI d.o.o.	STSI - Integrirani Tehnički Servisi d.o.o. - Branch Office In Syria, Damask
	STSI - Representative Office Belarus, Novopolotsk
INA Adria BV	Branch Office Zagreb, Croatia
Holdina d.o.o.	36 retail locations registered as Branch Office
Energopetrol d.d.	Branch Office - Maloprodajno mjesto Varaš 2

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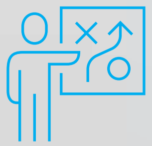
SUSTAINABILITY IN INA GROUP

SUSTAINABLE DEVELOPMENT MANAGEMENT IN INA GROUP

Achievements

- Open consultation on sustainable development topics with key external INA Group stakeholders held
- CSR Index overall score improved
- INA Group Sustainable Development action plan 2020 developed in line with SDGs



Challenges

- New Sustainable Development strategy 2021-2030 development
- INA Group stakeholders re-mapping and engagement continuation
- Further SDGs integration and awareness raising

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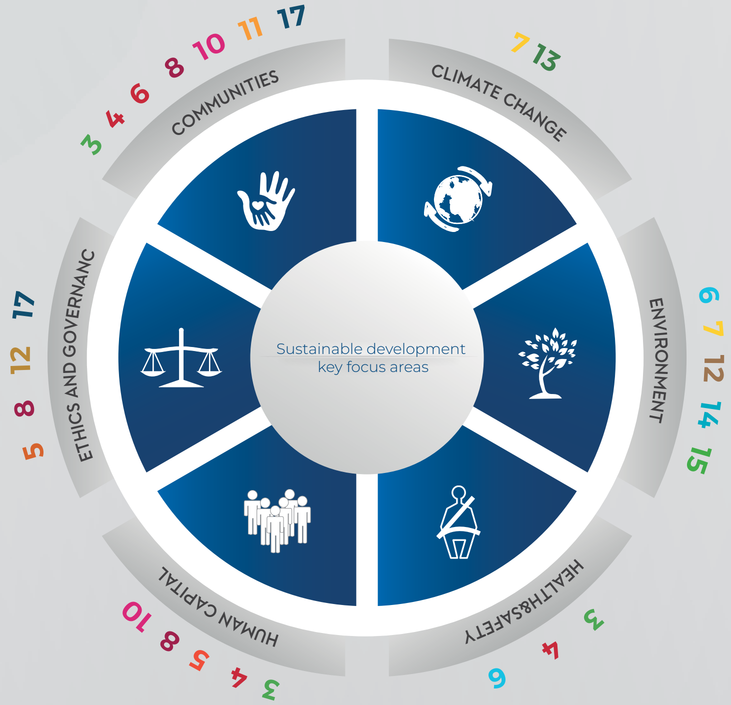
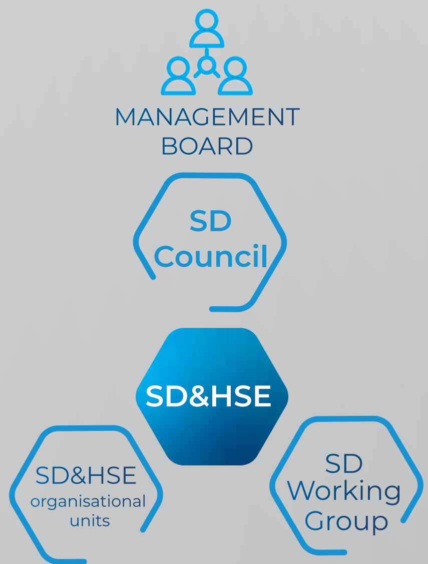
To achieve our commitment to a balanced integration of economic, environmental and social factors in daily business operations, we continuously implement new actions in order to achieve **Sustainable Development Key Objectives and Programs 2020.** Through six focus areas consisting of 24 programs, annual action plans are developed and monitored on quarterly basis against targeted realization (at least 85% realization). Realization of Sustainable Development, Health, Safety and Environment (hereinafter: SD&HSE) action plans is set as a divisional target. Sustainable development (hereinafter: SD) related actions and projects are an integral part of INA Group companies' business plan. In 2019, a total of 49 SD actions were conducted at INA Group level, with overall SD&HSE realization of 99%. In order to examine SD related data collection procedures to enhance data accuracy, verify the compliance of SD organization and processes to the applicable internal regulations, verify the progress of SD actions and projects and the quality of stakeholder engagement every year, internal SD audits are performed. In 2019 two internal SD audits in total were conducted.

13 Sustainable development goals suported by our initiatives



Sustainable development governance in INA Group, as a strategic issue and corporate responsibility, is managed on the highest managerial level with the support of SD Council members and SD working group members, coordinated by an SD expert.

SUSTAINABLE DEVELOPMENT GOVERNANCE



An additional step in the better integration of SDGs in INA Group business was achieved in June 2019, when a workshop was held for members of INA Group Sustainable Development Working Group to raise knowledge and awareness of SDGs, but also to plan sustainable development actions for 2020 directly aligned with SDGs. With the help of an internally developed handbook, 17 organizational units and subsidiaries have developed a total of 51 sustainable development actions that will be implemented in 2020. In their implementation, the following SDGs will be in the focus:

We are proud that our employee was selected as the **first Croatian SDG Pioneer**. Each year, the UN Global Compact honours a group of SDG Pioneers - business leaders who, through their work, contribute to the Sustainable Development Goals and mobilize companies to be a force for good and bearers of solutions to global challenges. This year, for the first time in Croatia, to provide a voice for young people in building a sustainable future, the program focused on young professionals aged 35 or under who have made a significant positive impact on sustainable development goals while contributing to the success of companies in which they work.

HEALTH AND SAFETY

"Ensure operational HSE excellence"

3 GOOD HEALTH AND WELL-BEING
4 QUALITY EDUCATION
6 CLEAN WATER AND SANITATION

Achievements

- Establishment of the new firefighting subsidiary INA VATROGASNI SERVISI d.o.o. and its full operation
- Successful finish of turnaround and startup of the Rijeka Refinery
- Award for Zdravlje+ project from National Geographic Croatia

Challenges

- Further decrease of total recordable injury rate at INA Group level
- Health and safety assurance at Refinery Upgrade in Rijeka
- Availability and quality of contractors for high-risk works

OCCUPATIONAL HEALTH AND SAFETY

Operating on a daily basis in high-risk circumstances, INA Group relies on effective and sustainable system of managing the health, safety and the environment. The lives and health of employees are a key priority for INA Group; the company's strategy in industrial, environmental, and occupational safety is to achieve the goal which can be described as one simple rule: **"Doing no harm - to people, environment, or property - when working!".** In order to achieve that idea, but also to serve as support to the business objectives of INA Group and to create the basis for defining the guidelines for the management in the implementation of SD&HSE principles in daily business activities, INA Group has a developed **"Sustainable Development, Health, Safety and Environment Management System".** The system promotes and encourages compliance with international HSE Management standards (ISO 14001, ISO 45001), legislative and best oil and gas industry practices. System is based on 16 basic elements with assigned general principles, as it is described in the infographic:

SUSTAINABLE DEVELOPMENT, HEALTH, SAFETY AND ENVIRONMENT MANAGEMENT SYSTEM IN INA GROUP COMPANIES

- LEADERSHIP, COMMITMENT AND RESPONSIBILITY
- ENVIRONMENTAL PROTECTION MANAGEMENT
- RISK & CHANGE MANAGEMENT
- REQUIREMENTS, INFORMATION AND DOCUMENTATION
- COMPETENCE, TRAINING AND AWARENESS
- PRODUCT STEWARDSHIP
- PLANNING AND TARGETS
- COMMUNICATION AND CONSULTATION
- SD&HSE MANAGEMENT IN CONTRACTING AND SERVICE PROCUREMENT PROCESSES
- INCIDENT REPORTING AND INVESTIGATION
- DESIGN, CONSTRUCTION, COMMISSIONING AND DECOMMISSIONING
- EMERGENCY PLANNING AND RESPONSE
- SAFE OPERATION AND WORK PRACTICES
- AUDITS AND ENSURING THE SD & HSE SYSTEM EFFICIENCY
- HEALTH PROTECTION AND PROMOTION
- SOCIAL IMPACT

Occupational health and safety management

403-1, 403-7, 403-8

INA Group is committed to responsibly act and develop goals and actions in relation to the health and safety impacts, as integrative part of all our daily operations. We strive for high health protection standards and safety of our employees, contractors and customers, prevention of incidents, assurance of asset integrity and immediate response in emergency and crisis situations, as well as promotion of proactive health and safety corporate culture that is recognized by all our employees and contractors. Achievement of the highest level of health and safety performance requires careful selection, training and placement of personnel and provision of proper tools, equipment, personal protection, clear performance standards, and safe work instructions and procedures.

Occupational Health and Safety System at INA Group Companies (hereinafter: OHS system) is established to ensure that personnel can perform their jobs safely and can meet the work requirements and achieve regulatory compliance. System defines the key elements of work safety in the INA Group Companies, with clearly stated duties and responsibilities of the employer, managers, employees and contracted workers through all phases of system. General principles of control and hierarchy of risk reduction measures are the basic principles in workplace safety culture development. OHS system is structured by ISO 45001 management system fully aligned with legal requirements and best oil and gas practices.

Four major policies issued by top management represent INA Group cornerstone to commitments in occupational health and safety and they are as follows:

- INA Group Health, Safety, Environment and Social Impact Policy
- The Major Accidents Prevention Policy
- INA Group Road Safety Policy
- INA Group Personal Protective Equipment Policy

In order to reduce the risk at workplace and increase safety, besides legally obliged management documents, a variety of documents based on OHS best oil and gas practices are in place as well. List of legal requirement management documents and best OHS oil and gas practices implemented in INA Group can be found on page 120.

Hazard identification, risk assessment and incident investigation

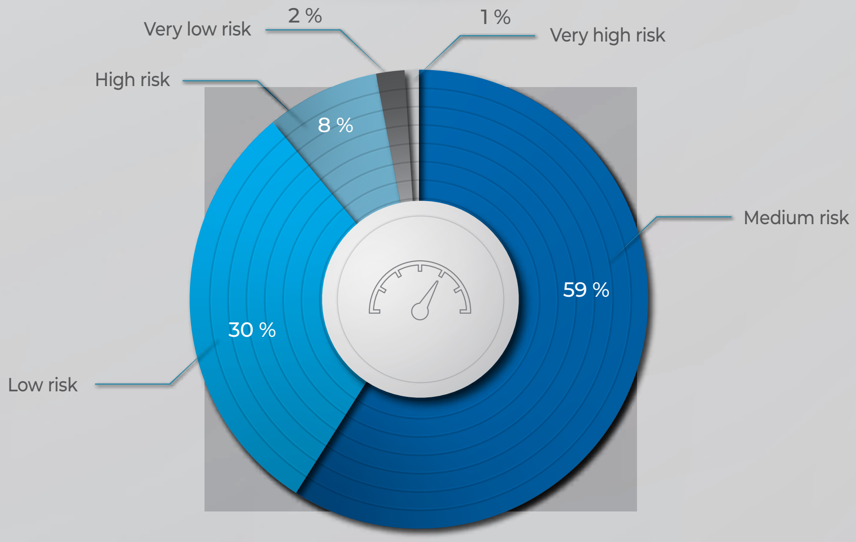
403-2, 403-4, 403-5

Within the frames of OHS system it is prescribed that all work positions and work places must be assessed. This is done within risk assessments for workplaces. Adding to this, the workers must be informed about hazards and protective measures, trained to work in a safe manner and in case of any hazardous situations how to stop work and notify local manager about the hazards and risks.

The mentioned risk assessment covers both employees and non-employees affected by the employer's undertaking. Risk assessment in general is prepared by team which usually consists of: OHS professionals with different background (chemical engineer, machine engineer, and a third profession by choice), medical doctor, employee's representative and others if necessary. Their main tasks are to identify the hazards, decide who might be harmed and how, evaluate the risks and decide whether the existing precautions are adequate or additional measures need to be implemented, record significant findings, review the assessment and modify it if necessary. Risk assessment findings are discussed at OHS committees and trained to employees. All employees are familiar and aware of the work and workplace hazards, so they are obliged to work in a safe manner, stop the work and report if any potential hazard has occurred.

In order to reduce and minimize consequences of incidents, INA Group established a risk register. Register contains identified risks and hazards, and that is the initial stage of managing the identified risks. Risks are separated in five levels from very low to very high risks. Risk maps consist of description of risks, solution in order to solve them and defined time for solving them.

IDENTIFIED RISKS



Main standard describing specific hazards at the local operating level "Safe operation and work practice in INA Group Companies" is incorporated as well. General regulation covers the implementation of hazard and risk prevention programs such as: Life Saving Rules, Safe operation and fire safety, Personal Protective Equipment, Lone working, Permit to Work, Testing of work environment, Hot work, Entry into confined space, Lifting and hoisting, Work at height, Ground disturbance, Energy control, Electrical safety, Opening process equipment and piping, Integrity check (pressure test) of process equipment, Temporary bypassing of a safety interlock, Continued operation with an activated process safety alarm and Road safety. All internal regulations of occupational health and safety have been approved by the Works Council.

The above mentioned OHS committee is a formal body with nominated persons. Main OHS committee consists of highest board management positions, three employees' commissioners and one OHS professional and medical doctor. OHS Subcommittees are lower level committees where the number of members may differ but there are at least one management position, one employees' commissioner, one OHS professional and a medical doctor. Committees are advisory bodies for the improvement of occupational health and safety.

Pursuant to the applicable regulations, relating to the works which entail an increased health and safety risk for employees and for the purpose of determining/controlling the employee medical condition and ability to perform the works, the employees must meet specific requirements relating to age, professional qualifications, medical condition mental ability and regularly take the prescribed medical examinations (e.g. workplaces with special working conditions).

The main medical examination performed by an occupational medical doctor is fitness for duty, meant to determine the employee's ability to meet the job requirements without endangering their health and safety or the health and safety of other employees and persons at work, assistance in adapting the employee's working environment and prevention of occupational injuries and illnesses.

Legally required trainings are performed regularly and 100% according to the planned trainings.

NAME OF TRAINING	NO. OF TRAINED INA GROUP EMPLOYEES IN 2019
Work in safe manner	1,884
Employer's commissioner	460
Employees' commissioner	11
First aid	346
Evacuation	276

Incident reporting

Incident reporting and investigation systems are in place to ensure that all unwanted HSE events are reported, recorded, investigated and analysed in a timely manner to prevent recurrence and improve performance. Corrective and preventive actions are undertaken, their effectiveness is evaluated and learning outcomes are shared. In 2019, downstream production expanded the scope of reported events from HSE-related to all process-related events.

Health protection and promotion

403-3, 403-6

The integration of the workplace health protection and promotion is an area of increasing importance. INA Group undertakes these activities proactively, they are above legal compliance and implemented through the ZDRAVLJE+ project, whose numerous campaigns are aimed at promoting and adopting healthy and safe lifestyles by employees, as well as having a positive impact on the families of our employees, our contracted providers, as well as the wider community. Health protection in INA Group focuses on the following areas:

- Implementation of mental and physical relaxation preventive programs and medical rehabilitations
- Developing regular exercise habits and prevention of musculoskeletal disorders
- Participation in sports and recreational activities and humanitarian contents
- Prevention and effective stress management
- Relief while working on a computer
- Prevention of leading diseases and addiction

More than 4,000 INA Group employees participate in these activities annually. Our suppliers are included in activities through operational support or sponsorship. The ZDRAVLJE+ project, which is being implemented for the 7th consecutive year, is supported by competent managers, occupational health and safety experts and employees, and includes a wide range of areas of application, which has resulted in positive changes in the culture of work and everyday life as well as the health status of INA Group employees. In December 2019, the project was awarded the National Geographic Croatia Yellow Frame award in Good Health and Well-Being category.

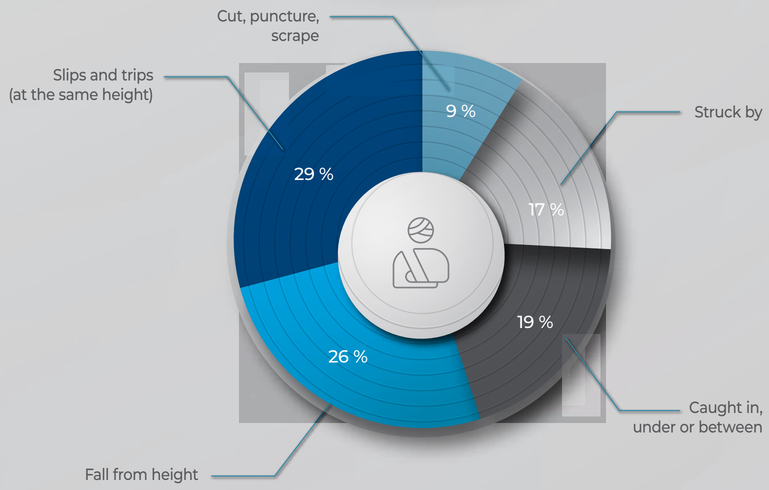
Occupational safety performance

403-9, 403-10

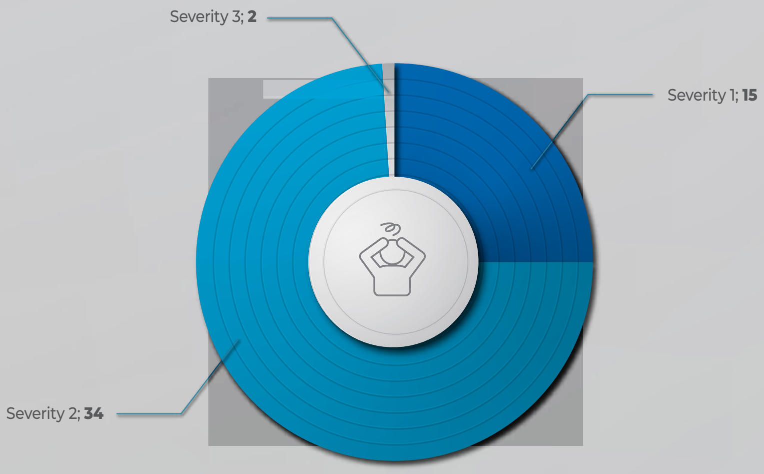
Results of occupational safety performance in 2019 greatly improved when comparing them to results of 2018. Recordable work-related injury rate decreased from 2.70 to 1.97 followed by reduction of number of work-related injuries of employees and contractors from 69 to 51 in 2019. Even though the main cause of injuries remained the same as in previous years, slips and trips at the same height, their number decreased by 10% compared to 2018. This is the result of our multiyear **program Unconscious Behaviour** which aims at a 25% decrease of slip, trip and fall-caused injuries by 2020. Our analyses showed that the primary and root cause of majority of injuries is related to manpower and human factor, and that is why we will put extra effort to educate and train our employees and contractors on safe working conditions and methods.

There were no types of ill health recorded, either in 2019 or in previous years, and no high-consequence injuries related to recognized hazards (such as high pressure, high temperature, exposure to hazardous chemicals, etc.) at workplace that posed a risk of high-consequence injuries in 2019.

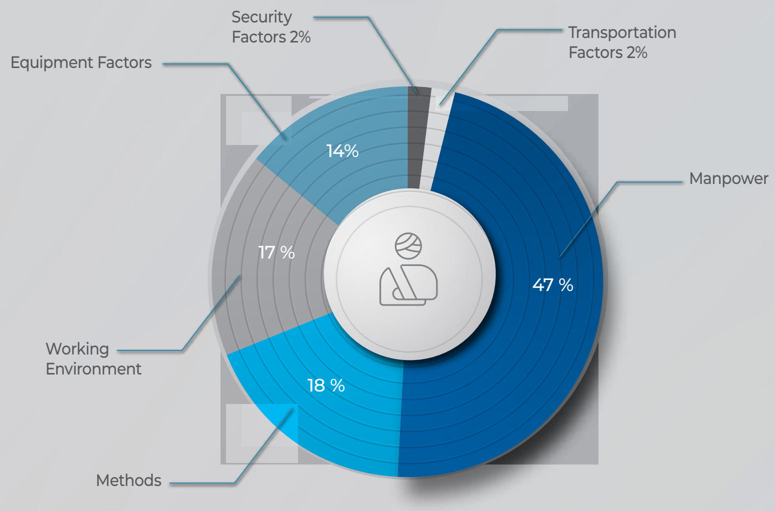
5 MAIN CAUSES OF TOTAL RECORDABLE INJURIES IN INA GROUP



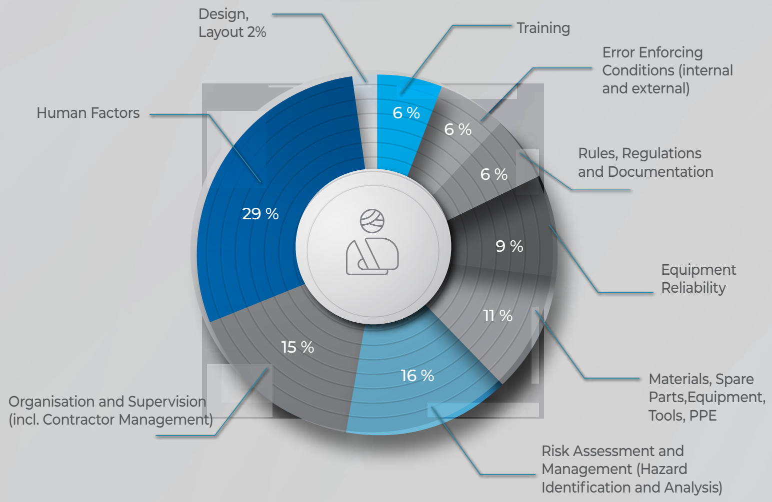
SEVERITIES OF INA GROUP TOTAL RECORDABLE INJURIES IN 2019



PRIMARY CAUSE OF TOTAL RECORDABLE INJURIES INA GROUP



ROOT CAUSE OF TOTAL RECORDABLE INJURIES INA GROUP



INA GROUP EMPLOYEES AND CONTRACTORS	2017	2018	2019
Number of fatalities as a result of work-related injury	0	0	0
Fatality rates* as a result of work-related injury	0	0	0
Number of high–consequence work-related injuries (excluding fatalities)	2	1	2
High–consequence work-related injury rate* (excluding fatalities)	0.08	0.04	0.08
Number of recordable work-related injuries	63	69	51
Recordable work-related injury rate*	2.55	2.70	1.97
Number of hours worked	24,687,772	25,571,939	25,906,895

rates have been calculated based on 1,000,000 hours worked

HEALTH AND SAFETY

INA GROUP CONTRACTORS	2017	2018	2019
Number of fatalities as a result of work-related injury	0	0	0
Fatality rates* as a result of work-related injury	0	0	0
Number of high–consequence work-related injuries (excluding fatalities)	0	0	1
High–consequence work-related injury rate* (excluding fatalities)	0	0	0.14
Number of recordable work-related injuries	15	12	9
Recordable work-related injury rate*	2.29	1.77	1.23
Number of hours worked	6,550,571	6,779,520	7,344,237

**rates have been calculated based on 1,000,000 hours worked*

Occupational safety programs

New Life Saving Rules set

INA Group shortened and refreshed its previous ten Life Saving Rules in 2019 to improve safety performance and to ensure everyone the license to say 'NO', concentrating on the most important aspects of safe work in the industrial environment.

Life saving rules

- USE ALL REQUIRED PPE AND EQUIPMENT FIT FOR PURPOSE
- MONITOR THE ATMOSPHERE AND FOLLOW THE PERMIT-TO-WORK
- APPLY HAZARD AND ENERGY ISOLATION, ENSURE SAFETY CONTROLS ARE IN PLACE
- OBTAIN AUTHORIZATION BEFORE ENTERING A CONFINED SPACE
- FOLLOW SAFE LIFTING RULES
- DRIVE SAFELY

HEALTH AND SAFETY

Rules are simple, concise and do what they say – save lives, that is why it is so important and expected of everyone to follow them at all times. Every single person must remember the importance of safety, accept his/her personal responsibility, and know what to do. These rules are formulated as I-statements thus increasing individual awareness and a form of ownership of critical safeguarding measurements preventing serious personal injuries and fatalities. The rules improve clarity and allow consistent and standardized operations by operators and contractors doing similar work across INA Group. It is important that the Life Saving Rules are understood by all individuals, their supervisors and their leaders, while following the Rules is not only mandatory for everyone, but it is ensured that we are all enabled to do so. New life saving rules set which consists of six rules was launched in July 2019 and by the end of 2019, 9,411 employees passed the exam of knowing the new Life Saving Rules set.

SMART award

Award for outstanding contribution in the field of SD&HSE for employees and contractors.
During the past two years in INA, d.d.

7	2	2
"SMART" Employees	"SMART" Project cooperation	"SMART" Contractors

were rewarded for extraordinary contribution in the field of SD&HSE.

Safe driving program

INA SAFE DRIVING

Training and improving driving skills
Since 2010

2,832 employees

241 training

Occupational safety programs

Unconscious behavior

Aim of program is to reduce the number of most common type of injuries, falls, slips and trips, by **25%** in the year 2020.

346 workshops

3,257 employees

93% of affected employees graded these workshops as great training.

WEB Corner for Contractors

Purpose is to **raise the standard of health and safety protection when works are performed by contractual partners.**

The goal is to **develop a special, functional web page intended exclusively for all contractors / subcontractors** where the interested parties will be provided with all necessary information related to the field of HSE.

HEALTH AND SAFETY

PROCESS SAFETY MANAGEMENT AND FIRE PROTECTION

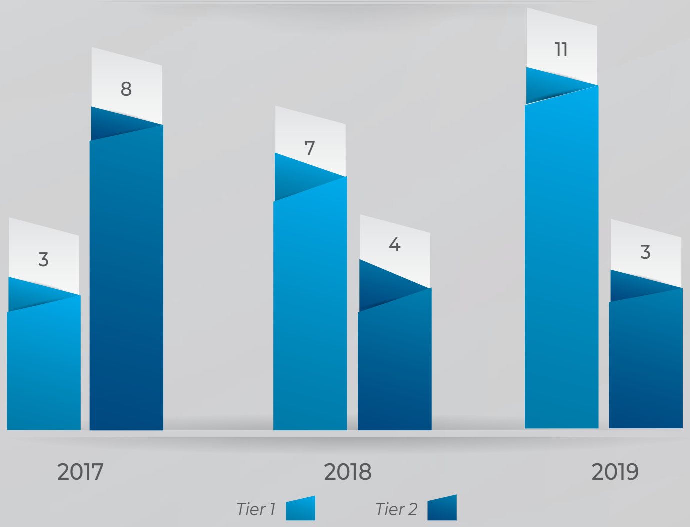
Process safety management

In 2019, our main focus in the process safety management system (hereinafter: PSM) was on the successful implementation of three PSM practices that will increase process safety at all INA Group businesses:

- **Flange protocol procedure** - procedure for marking torque moment for tightening the screws on flanges and the data about personnel who performed the works for all new installed equipment, to help reduce the risk of flammable material leaking on flanges
- **New Pre-start up safety review questionnaire** was issued in cooperation with the investment department
- **Scenarios and training** for possible extraordinary situations in INA Group businesses.

Regarding the process safety events (hereinafter: PSE), in 2019 we recorded three Tier 1 (process safety events with highest consequence) and 11 Tier 2 events (process safety event with lower consequence). All three of Tier 1 PSEs were caused by material release over threshold quantities under API 754 standard - one crude oil leakage from the underground pipeline in Sisak Refinery, one crude oil leakage from storage tank in Rijeka Refinery and the release of 900 kg of LPG from LPG sphere during installation of level measurement equipment. For all of these PSEs, preventive and corrective measures were determined and implemented in order to prevent the recurrence. Reasoning behind a bigger number of reported Tier 2 was better tracking of PSE and reporting through standard reporting system Enablon.

PROCES SAFETY EVENTS IN INA GROUP



Fire protection

In the Republic of Croatia, according to the current legislation, there are four fire hazard categories and according to this, INA Group has 23 categorized sites and locations according to fire hazard categorization (category 1-4).

- I category (a-h) – 10 locations
- II category (a-b) – 13 locations

Adding to the aforementioned, 13 locations are also categorized as SEVESO sites.

Fire protection and Firefighting in INA Group is a regular part of protecting activities on all INA Group sites and locations and is regulated by legal and internal regulations which define this area (Basics of the Fire Protection and Firefighting at INA Group Companies). INA Group is responsible to ensure fire protection/firefighting requirements and meet the local legislation (but not necessarily limited to them). The active and passive fire protection needs to be compliant with legal requirements and shall be continuously upgraded according to the best international and industrial practices and standards.

One of our SD&HSE 2020 strategy goals was implementation of new firefighting strategy in order to optimize all firefighting services. For that purpose, new subsidiary INA VATROGASNI SERVISI d.o.o. was formed with two main goals: firefighting and rescue and fire protection and emergency response. In total five Fire Brigades (Molve, Solin, Žitnjak Zagreb, Sisak Refinery and Rijeka Refinery) ensure safety of major locations by planning and execution of all types of interventions (firefighting, technical, emergency response, environmental), ensuring intervention readiness and functionality of firefighting equipment.

May is traditionally the month which we dedicate to fire protection, and also the month in which we mark St. Florian's Day, protector of Croatian firefighters. During that period we organized a series of firefighting drills, educational and informative activities in order to emphasize the importance of prevention. Final INA Group fire drill, involving more than 50 emergency services members and Solin Logistic Terminal employees, was held on 31 May 2019. This exercise, in which the ship hull explosions, fire and the rescue of the injured were simulated, aimed to show how the availability of protective devices, crisis management and compliance with safety measures can reduce material damage and preserve human life. INA, d.d. Solin Logistic Terminal employees, Professional Fire Brigade (hereinafter: PFB) Solin, PFB Split, Voluntary Fire Brigade (hereinafter: VFD) Solin, VFD Vranjic, VFD Mladost - Kaštel Sućurac, VFD Kaštel Gomilica, Port Authority Split, Marine Police Split, Brodospas, Tanker Sepen, Tanker Forca, Legio Quarta, HGSS and the Croatian MoD participated in this fire drill. Thanks to good cooperation with expert teams trained for evacuation, rescue, firefighting and first aid, the exercise has been successfully held. You can watch it at our YouTube channel INA Hrvatska.

CLIMATE CHANGE

“Manage risk and opportunities related to climate change”

103-1, 103-2, 103-3

Achievements

- Energy efficiency improvement of Rijeka Refinery due to the extensive turnaround
- Successfully implemented pilot projects for the production of biocomponents
- Significant CO_2 emissions avoided through the EOR project - 1.5 million tonnes of CO_2 permanently stored in the last five years

Challenges

- 4th ETS trading period (2021 – 2030)
- Volatile carbon price
- Increasing share of clean energy in transportation

GLOBAL OVERVIEW ON CLIMATE CHANGE AND OUR RESPONSE

Climate change is one of the major economic, social and environmental challenges of our time and the most important strategic issue facing the oil and gas industry today. Due to the character of its business and number of locations, INA Group is a major energy user, therefore the improvement of energy-efficiency and reduction of greenhouse gas (hereinafter: GHG) intensity of our operations is considered as a continuous priority. In December 2019, the European Commission published its Green Deal for Europe – a very ambitious package of measures that should make Europe the first climate-neutral continent in the world by 2050 and which will be written into the first European Climate Law. This law will aim to ensure that all EU policies contribute to this goal and that all sectors of the economy and society play their part in decarbonization. The impact on the oil and gas industry will be significant, as the EU’s carbon emission reduction target jumps from currently 40% to at least 50% (towards 55%) in 2030, compared to 1990 levels. Considering the goals, the oil and gas industry is under increasing pressure to support decarbonization, move to a low carbon energy system, while meeting the expected oil and gas demand over the transition period. As stated in the 2019 World Energy Outlook, even in one of the most ambitious, International Energy Agency Sustainable Development Scenario, oil and gas will remain a part of the global energy mix with predicted liquids demand at 66.7 million barrels per day in 2040 (30% below 2018 levels) and global gas demand is to remain flat in 2040 from 2018 levels.

One of the main challenges of the oil and gas industry in the 4th ETS trading period is to ensure growth and limit the emission of greenhouse gases with a high price of emission quota. Our focus areas which deliver GHG reductions are energy efficiency and energy savings, elimination of energy losses and the reduction of flared and vented gases.

As a response to the climate change issues, INA, d.d. is developing several projects.

Biorefinery project

For the last few years we have been working on potential development of the biorefinery project which aims at the production of second generation bioethanol from biomass, in synergy with green energy production. The project promotes the development of bioeconomy and biotechnology and it is of strategic interest to the Republic of Croatia. It is an investment of EUR 200-250 million (HRK 1.5 – 2 bln) in technology, out of which 60% is planned to be secured by EU Innovation Fund. Also, an investment in agriculture is expected in amount of EUR 50-70 million (HRK around half of billion) for the purpose of establishing biomass supply chain, with the planned support from rural development funds, primarily for activities related to the establishment of miscanthus plantations. For the purpose of managing the biomass supply chain, the company is considering the establishment of a separate subsidiary. The objectives of the project are in line with the European Renewable Energy Directive (RED II), which requires distributors to blend 3.5% of advanced biofuels by 2030.

In early 2019, the first harvest of the energy plant miscanthus (Miscanthus x giganteus) was conducted in which we have collected about 30 tonnes of biomass at our demonstration field in Rugvica near Zagreb. The collected biomass was sent to an innovative chemical company in Germany, at a pre-commercial sunliquid® processing plant. The test results are optimistic because they have shown that the mentioned technology can successfully process miscanthus into lignocellulosic sugar and ethanol, thus opening the door for further project development. Project is currently in basic design preparation prior to making final investment decision.

BIOREFINERY IN CROATIA

II. GENERATION BIOFUELS

Reduction of greenhouse gases emission in comparison to oil fuels

II. GENERATION ETOH	INA	>100%
II. GENERATION ETOH		85%
I. GENERATION ETOH		50%
BIODIESEL		40%

CLIMATE CHANGE

Pilot projects for the production of biocomponents

New technologies and solutions for the production of advanced biofuels are focused on the processing of waste and residues of non-food uses, most commonly biomass and bio-waste. Such technology is co-production or co-processing, which is the processing of a fossil feedstock with a certain proportion of biocomponent in some of the refinery plants. Although co-processing technologies are at a high level of development, their commercial use has not yet come to life. At INA, d.d. we are continuously working on the possibility of introducing the production of advanced biofuels from bio pyrolytic oil from waste wood. Tests were conducted on the hydrodesulphurization (hereinafter: HDS) and fluid catalytic cracking (hereinafter: FCC) units to examine the mentioned technology and its application. During the test run on the FCC unit, Rijeka Refinery was certified in accordance with the International Sustainability & Carbon Certification (ISCC) for the production of biofuels and is currently the only refinery in Europe certified for production of advanced biofuels from FCC co-processing. These tests are another example of how INA, d.d. is prepared to follow the global trends in the application of new technologies and is investing efforts in exploring new alternative fuels with the aim to reduce greenhouse gas emissions and conserve the environment.

First INA's solar power plant began producing electricity

After successful completion of the trial period, in November 2019, the Certificate of permanent operation of a photovoltaic power system installed on the roof of the administration building at LPG terminal in Kaštel Sućurac was issued. This became the first INA, d.d. solar power plant commissioned. The annual production of the power plant is around 40 MWh. An additional benefit is the reduction of environmental impact, since the reduction of electricity generation will reduce CO_2 emissions by approximately eight tonnes per year. The project was funded by the Green Fund, a financial mechanism launched in 2016 at the MOL Group level to support investment projects that contribute significantly to environmental protection, are not a legal obligation and can be implemented in other locations.

Used cooking oil pilot project

Two years ago, we launched a project for collection of used cooking oil from households on our service stations which wanted to examine its potential in the production of biofuels. This project is an example of good practice contributing to the achievement of the Global Sustainable Development Goals and was included in the Voluntary National Review of Croatia presented to the UN High Level Political Forum in July 2019.

ENERGY EFFICIENCY

As an integrated oil and gas company, INA, d.d. operates large facilities and is a major energy consumer with energy accounting for a significant share of our operational costs. INA Group is committed to responsible use of energy and continuously monitors and improves its energy performance in all business segments, industrial plants, equipment, facilities and office buildings. Energy Management System was introduced at INA Group level (INA, d.d., STSI d.o.o., INA MAZIVA d.o.o. and CROSCO d.o.o.) in 2015 and is regularly maintained. Since then, INA Group energy saving projects were based on more than 100 initiatives. As a result of these activities, Rijeka Refinery, being the biggest energy consumer, improved its Energy Intensity Index by 6% and Specific Carbon Dioxide Emissions by 3.8%, in comparison to indicators for 2017, and in 2019 it conducted the biggest historical turnaround in which a number of energy efficiency projects were implemented (furnace replacement, waste heat recovery, etc.).

Next four-year cycle (2020 to 2024) will continue with the promotion of energy awareness, designing new ideas and concepts in order to further improve the system, bring successful energy performance and achieve better energy efficiency of the entire INA Group.

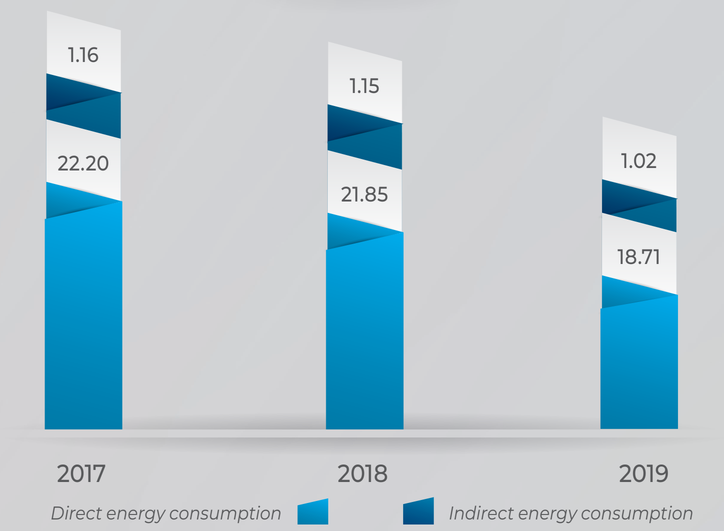
Energy consumption

302-1, 302-2, 302-3, 302-4

Total energy consumption in INA Group in 2019 amounted to 19.73 million GJ, out of which 18.71 million GJ of direct energy consumption and 1.02 million GJ of indirect energy consumption. Direct energy includes consumption of natural gas (8.20 million GJ) and other hydrocarbon energy source consumption (represents the sum of the quantities of fuel distilled from crude oil, including LPG, compressed natural gas, LNG, butane, propane, ethane and fuel used for combustion in boilers, furnaces, heaters, turbines, flares, incinerators, generators, etc.) in the amount of 10.50 million GJ.

Regarding the indirect energy consumption, the total electricity purchased from external sources amounted to 0.876 million GJ and 0.135 million GJ of intermediate energy (steam, heat, etc.). The vast majority of total energy consumed in 2019 in INA Group came from non-renewable sources and 72 GJ energy was produced and consumed from electrical solar panels on offshore platforms. In Rijeka Refinery, 300 GJ of electricity was sold as a result of electricity surplus (used for safety reasons in case of a network failure).

TOTAL DIRECT AND INDIRECT ENERGY CONSUMPTION INA GROUP (milion GJ)*



**All data was collected in the internal data collection system Enablon. Direct energy consumption is calculated based on laboratory analysis of used fuel, when applicable, or by usage of IPCC factors. Indirect energy consumption was calculated based on the bills received from external providers of heat, steam and electricity.*

Energy saving projects in INA Group

305-5

Through various projects we are dedicated to greenhouse gas emission reductions and increase of energy efficiency across our entire business. The energy management system is implemented through continuous monitoring of energy consumers in each organizational unit, which is accompanied by specific investment projects that ensure energy efficiency.

During the complex Rijeka Refinery turnaround, three projects have been completed that will significantly affect the refinery work efficiency and the reduction of energy consumption with the same or better effect. These are the projects of reconstruction and modernization of process furnaces at Topping 3 and Platforming 2 plants and CO boiler at Fluid Catalytic Cracking plant (hereinafter: FCC) that produces steam from waste heat. In addition to energy efficiency increasing, all of these projects have a particularly beneficial effect on CO_2 emission reduction, which provides the community and the refinery a better sustainable future and easier approval of future development projects on site. The modernization of the process furnace at Topping 3, beside installation of a new column for atmospheric distillation, included the complete replacement of the burners with emission reductions and reconstruction of the furnace in order to fully comply with the environmental permit requirements. New furnace will make better use of waste heat from refinery fuel gas, while fuel consumption will be reduced by 9,700 tonnes per year and CO_2 emissions by 26,000 tonnes per year. Increasing energy efficiency at the Platforming 2 plant consisted of compressor modernization and production of 600 tonnes more hydrogen per year, which is used as a high-value component in desulphurization processes, major furnace reconstruction and installation of burners for nitrogen oxide emission reduction. All this is expected to result in lower energy consumption with CO_2 emissions reduction by approximately 28,000 tonnes per year. The modernization of the CO boiler has included an increase in energy efficiency by better utilization of waste heat from FCC regenerators and the consequent reduction of emissions into the atmosphere.

We continue to promote energy awareness, develop new ideas and designs, and expand the list of energy relevant projects, all with the aim of further improvement of the system and improvement of the energy efficiency of the entire INA Group.

Solar power plant in Rijeka Refinery

The aim of this project is the installation of photovoltaic (hereinafter: PV) power plant in Rijeka Refinery as a large electrical consumer with adequate location and available plot space. Feasibility Study covered all objects and other available locations which have potential for PV systems installation in refinery area and all identified locations were analysed, photographed and systemized. In total, 49 potential locations were identified. As the optimal solution for the first PV project implementation, proposed solution was to install it on the parking lot with an existing canopy. This PV power plant will produce enough green electricity (96,328 kWh per year) to supply all office buildings in Rijeka Refinery.

Solar heating and heat pumps on INA, d.d. service stations

The major objective of this project was to improve energy performance of the existing water-heating systems installed on 12 INA, d.d. service stations. The selected stations all have significant hot water consumption (typically within Fresh Corner and in the toilets). Standard electrical boilers (with high energy consumption) are replaced by low-energy systems. Such systems integrate two modules: solar panels (for the summer period) and heat pumps (during the winter). Dual system is reducing energy consumption by 60% with heat pump and by additional 80% with solar panels. There is also the additional benefit of reduced CO_2 emission due to significantly lower energy consumption required to heat the water. The project was funded by the Green Fund, a financial mechanism launched in 2016 at the MOL Group level, to support investment projects that contribute significantly to environmental protection, are not a legal obligation and can be implemented in other locations.

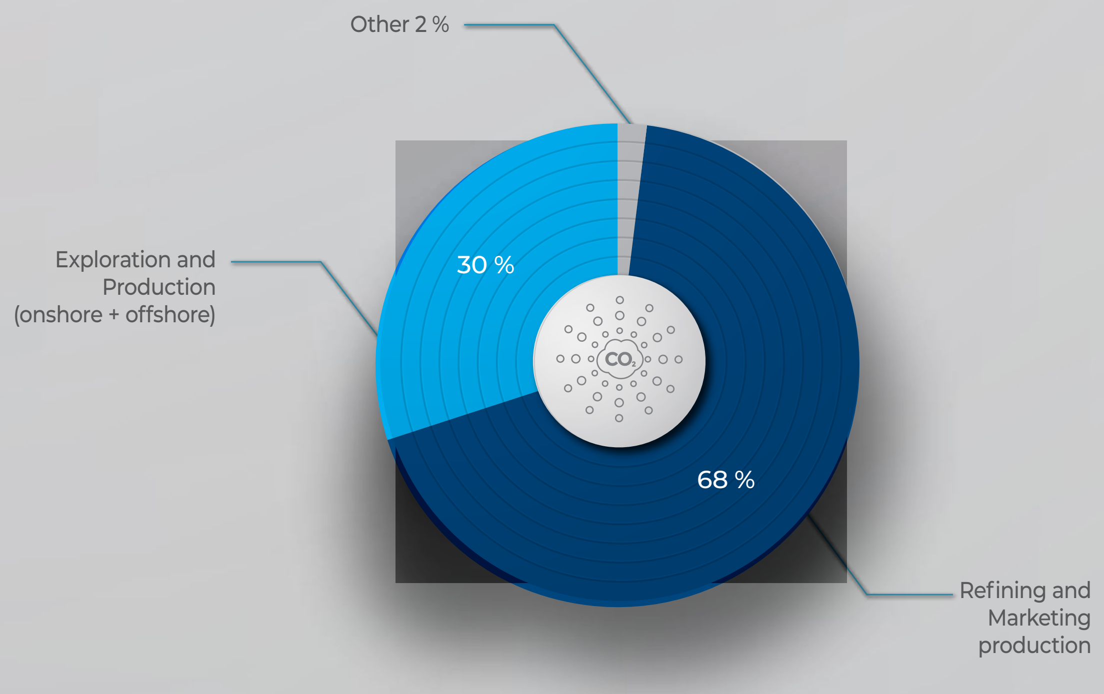
OUR GHG EMISSIONS PERFORMANCE

305-1, 305-2

Greenhouse Gas Scope 1 and Scope 2 emissions

INA Group total Greenhouse Gas (hereinafter: GHG) Scope 1 emissions reached 1.51 million tonnes of CO_2 equivalent for 2019, down from 1.83 million tonnes in 2018. The year-on-year decrease was mainly driven by major turnaround in Rijeka Refinery (no production of fuels resulted in lower GHG emissions). The yearly decrease in GHG emissions was partially off-set by a number of energy efficiency measures across the Group (see Energy saving project in INA Group section for more details) and Enhanced Oil Recovery (hereinafter: EOR) project. During 2019, as part of the EOR project, 202,695,495 m^3 of CO_2 was injected in the Ivanić and Žutica fields. The EOR method used since 2014 is the so-called Water Alternating Gas Injection (hereinafter: WAG) process, which involves alternate injection of carbon dioxide and water into depleted oil reservoirs in monthly cycles. Although the primary goal of EOR is to increase oil extraction, the secondary goal is also very important - permanent storage of CO_2. The project has an important environmental aspect since significant CO_2 emissions have been avoided since its implementation in 2014 - 1.5 million tonnes of CO_2 have been permanently stored, which is equivalent to 25% of annual passenger vehicle emissions in Croatia. The EOR project is also considered as Carbon Capture, Utilization and Storage project (hereinafter: CCUS). CCUS projects will be of great importance in achieving the CO_2 reduction targets set by the Paris Agreement. The constructed CO_2 injection plants and installations allow the project to be extended also to other oil fields near Ivanić and Žutica. Scope 2 from the purchased energy (e.g. electricity, heat, steam) emissions remained relatively the same, with a slight increase driven by increased purchase of electricity from external sources.

SOURCE OF SCOPE 1 GHG EMISSIONS



Emissions from flaring and venting

OG 6

Venting and flaring are important operational and safety measures used in petroleum refining facilities and during production to ensure that vapours and gases are safely disposed of. On the other hand, flaring of natural gas wastes valuable resources and contributes to the climate change, which is why we are working on flaring reduction. Overall emissions from flaring were reduced since last year mainly due to turnaround in Rijeka Refinery, lower processing in Sisak Refinery and flaring reduction projects in Exploration and Production.

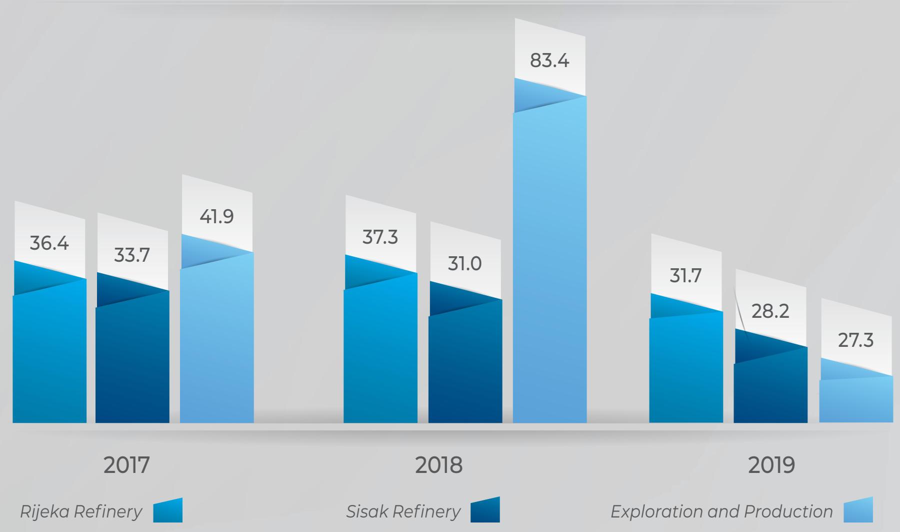
Flaring reduction projects in Exploration and Production

Two flaring reduction projects were initiated in Exploration and Production in 2017 and 2018 with the aim to eliminate gas flaring at Mramor Brdo Gathering Station (hereinafter: GS) and measurement and gathering station (hereinafter: MGS) Đeletovci after separation of produced oil and gas. At Mramor Brdo GS, a compressor plant driven by an electric motor is installed in order to collect produced associated gas, compress it and send it to the process, instead of burning it on the flares. A part of the compressed gas will be used for oil production by gas lift artificial method and the rest will be dispatched for processing to Fractionation Facility Ivanić Grad. The commissioning of the compressor plant is scheduled for March 2020. With the implementation of this project, the expected flaring reduction is 365,000 m^3/year, while at MGS Đeletovci it amounts to 233,450 m^3/year.

Flare measurement improvement in Rijeka Refinery

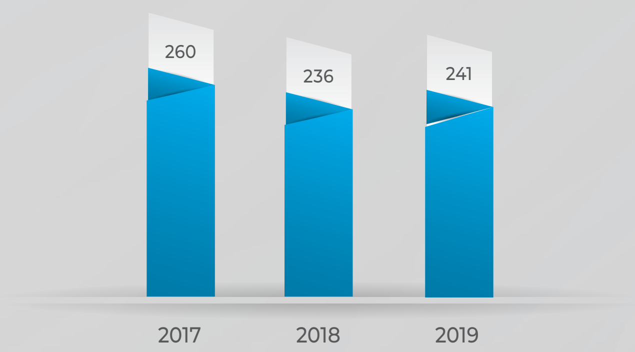
In Rijeka Refinery, a flare measurement improvement project was finished, the objective of which is to enable adequate measurement system in order to improve material balance control and calculation of consumption and losses from each process unit to blow down system, i.e. flares. Project included purchase and installation of new ultrasonic gas flow meters on battery limits of 15 process units in Rijeka Refinery in order to have continuous measuring of gas quantities released to the blow down system. This shall enable better control of gas consumption and losses from each process unit but also contributes to fuel savings.

DIRECT GHG EMISSIONS FROM FLARING (in thousand tCO_2eq)



CLIMATE CHANGE

DIRECT GHG EMISSIONS FROM VENTING IN EXPLORATION AND PRODUCTION
(in thousand tCO_2eq)



Greenhouse Gas Scope 3 emissions

305-3

INA Group accounts under Scope 3 emissions the GHG emitted from the value chain which are not directly related to company operations. Such emissions are typically the result of the use of refinery products (fuel) and natural gas by customers (these make up 86% and 12% of all INA Group Scope 3 GHG emissions respectively). The remaining part is mainly generated by suppliers who provide services to INA Group and corporate business trips. Regarding the Scope 3 emissions reduction, INA, d.d. offers petrol and diesel fuels with the prescribed share of bio components at its service stations. In this way, CO_2 emissions from fuel combustion are reduced.

GREENHOUSE GAS EMISSIONS – SCOPE 3 (tonnes of CO_2 equivalent)	2019
TOTAL INDIRECT GHG (SCOPE-3)	**14,184,163**
o/w Customers - Use of purchased refinery products	12,300,848
o/w Customers - Use of purchased natural gas (own production)	1,636,914
o/w INA Group - Business trips by air	659
o/w Suppliers - Production of crude oil (purchased from external sources)	245,742

ENVIRONMENT

"Reduce environmental footprint"

Achievements

- Investment for Rijeka Refinery Upgrade project is approved, which will reduce air emissions from the combustion of fuel oil
- Projects for air emission reduction prescribed in Rijeka Refinery environmental permit finished
- In two years on INA Group service stations, more than nine tonnes of used cooking oil from households collected

Challenges

- Revision of refineries environmental permits and integrated air emission management implementation
- Used cooking oil collection expansion on more INA Group premises
- Improvement of selective collection of different plastic waste streams, including single use plastic at selected sites

ENVIRONMENTAL PROTECTION MANAGEMENT IN INA GROUP

102-11

There is no doubt that safeguarding the environment is one of the biggest imperatives of our time. In a changing regulatory environment, the impact on the business is 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. We are committed to prevent spills and reduce releases to the air and water, minimize waste and promote responsible soil management.

This year was marked by a major turnaround of the Rijeka Refinery within which several investment projects for air emissions reduction and increase of energy efficiency of the refinery were completed.

All potential and real incidents are reported, investigated and analysed to prevent their reoccurrence and to improve the performance. Actions are applied and acquired knowledge and experiences are shared. Plans, procedures and resources are introduced in order to effectively respond to emergency situations, to protect the employees and the environment, as well as to preserve the company assets and reputation.

Moving toward providing more efficient, responsible, and sustainable methods of achieving the key objectives, INA Group annually prepares SD&HSE Action Plan where actions are tailored to fit the specific business process needs in the environmental protection field. In 2019 we have started with moving to a more circular economy model in order to implement efficient separate waste collection and to increase the share of recycled plastics and prevent over packaging.

Environmental performance indicators are carefully monitored, audited and reviewed in order to identify trends, measure progress, assess compliance and ensure continuous improvement.

SPILLS INTO THE ENVIRONMENT

306-3

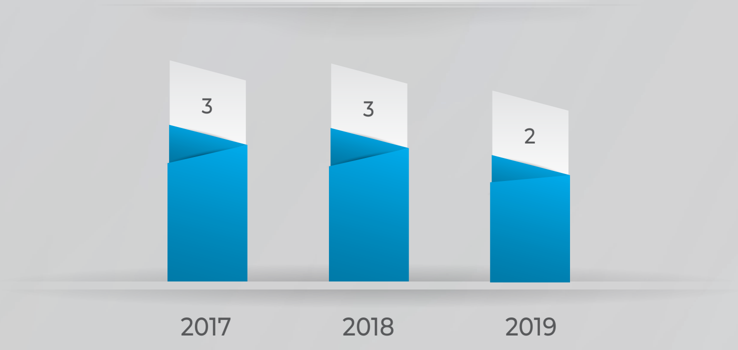
We continuously strive to prevent any spills that can have an impact on the environment, and we monitor and report spills of all fluids, not just hydrocarbons. Spill prevention actions include inspections, wall thickness measurements, application of corrosion inhibitors, replacement and rehabilitation of critical parts of pipelines. If a spill does occur, we act in accordance with our internal emergency plans and immediately activate our preparedness and response team and if necessary, specialized contracted companies to contain the fluid and protect the surrounding environment from spreading it further. All spills must be documented and reported internally in our incident reporting tool and investigated in a set period of time, no matter the severity of the spill.

Even though the total number of spill events in 2019 increased 36% compared to last year, the total hydrocarbon spill volume remained at the same level. During 2019, a total of 39 spills occurred, of which two were caused by third party activity (5%). Total spilled volume amounts to 112 m^3 while spilled hydrocarbon content amounts to 19 m^3. Beside hydrocarbons, the most frequently spilled fluid was formation/salt water. The majority of spills occurred at our upstream sites due to the length and age of the pipelines. The most frequent cause is corrosion which resulted in 25 spills (64%), followed by quality of equipment e.g. gasket ruptures (8%) and mechanical / equipment failures resulting in spills in five cases (13%). Total cost of these events amounts to HRK 2.6 million.

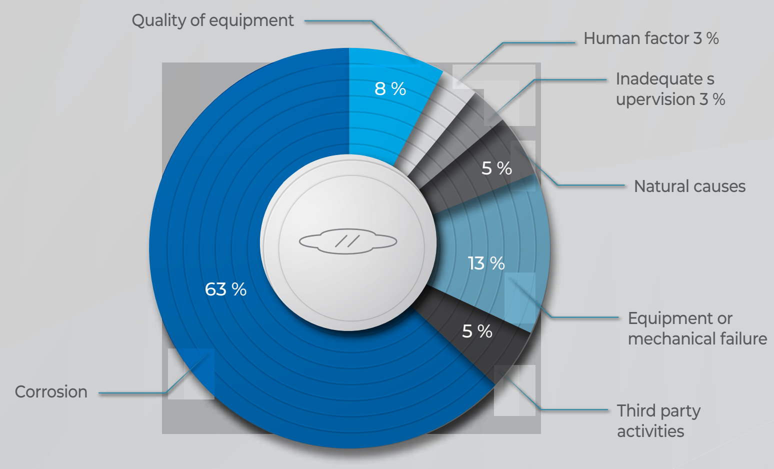
Out of the total number of spills, two were significant (over 1 m^3 of hydrocarbons), which are described in more detail below. In the last five years (since 2014), the number of illegal connections evidently decreased, which can be attributed to the increased and improved monitoring of pipeline routes as well as successful cooperation with local police departments and communities. In the past nine years, as a part of the rehabilitation and replacement of obsolete equipment project, numerous pipelines have been rehabilitated, replaced and inspected, which also continued in 2019.

This year, the largest spill was recorded at our Rijeka Refinery site where 12 m^3 of hydrocarbons were spilled into underground. During filling of the tank with crude oil, the operator noticed a leakage from the tank into the tank bund, coming from the drainage pipe of floating roof. Because of the permeability around the drainage pipeline, oil leaked into the environment (underground) through the tank bund wall. Remediation started immediately. The other happened due to corrosion of the oil pipeline at our Exploration and Production site in Ivanić Grad where 1.5 m^3 of crude oil was spilt and 60 m^2 of soil trench was polluted. Excavation was carried out immediately and a clamp was installed at the leakage spot. The watercourses were not endangered. The remediation activities were carried out by STSI d.o.o. and a contracted company.

HYDROCARBON SPILLS ABOVE 1 m^3 IN INA GROUP



DISTRIBUTION OF SPILLS BY CAUSE



WASTE MANAGEMENT IN INA GROUP

306-2, 306-4, OG 7

In 2019 we have continued with implementation of **INA Group 2018-2021 Key Waste Management Objectives.** Recognized priority actions that will improve our waste management system are determined as: continuous education and raising awareness of all participants in our waste management process, informatization, improved supervision, cost reduction, expansion of project for used cooking oil collection to more INA, d.d. premises, improvement of selective waste collection, and extension of own waste treatment capacities.

In 2019, the facility with tetra-ethyl lead (hereinafter: TEL) was completely removed from Rijeka Refinery. Within this project, TEL installation was dismantled, decontaminated and disposed along with 30 m^3 of TEL. In addition, waste separation has been improved by installing selective waste collection bins for paper, plastic and metal at individual locations, an analysis of packaging and other plastic waste generated on our locations has been made with the aim of finding alternatives for replacement of single use plastic and packaging.

Within the MOL Group Green Fund program for financing environmental friendly projects which are not legal requirement, STSI d.o.o. modernized the waste management system by purchasing Bio-Circle devices. Bio-Circle is a device that uses the solution consisting of natural substances for cleaning of contaminated parts and provides economical washing with no hazard to humans and the environment. The operation of the device is based on recycling of liquids using the microorganisms that feed on oils and greases, which means that the same cleaning liquid can be reused several times.

Waste generation and disposal

Total amount of generated waste in 2019 decreased by 15%. Out of total amount of waste generated (28,944 tonnes), there were 15,632 tonnes of hazardous waste and 13,312 tonnes of non-hazardous waste. More than 70% of all waste was generated by our daily operations and drilling activities, well completion and workover activities, 16% from remediation activities and 12% by construction and demolition and emergency measures. The main reason behind decreased figures of generated waste is due to improvement in Rijeka Refinery processing (built amine unit that produces less waste alkali) and decreased quantity of oily waste material collected at waste water treatment and tanks in Sisak Refinery.

INA Consumer Services and Retail continued with Soil Remediation Project in 2019 and during the remediation activities all works and excavation were supervised by authorised ecological supervision. Contaminated soil was delivered to the authorized company STSI d.o.o. for further processing (bioremediation). In 2019, 25% less contaminated soil was generated, compared to 2018, due to works conducted in decreased scope. Due to the type of contaminated soil, the best process used for soil treatment is bioremediation. Bioremediation is a complex process depending on many factors including existence of a microbial population, type of contaminants and environmental conditions. As such, it is a part of the so-called green technology – technology of the future, since it corresponds with the sustainable development concept.

TOTAL AMOUNT OF GENERATED WASTE IN INA GROUP (t)

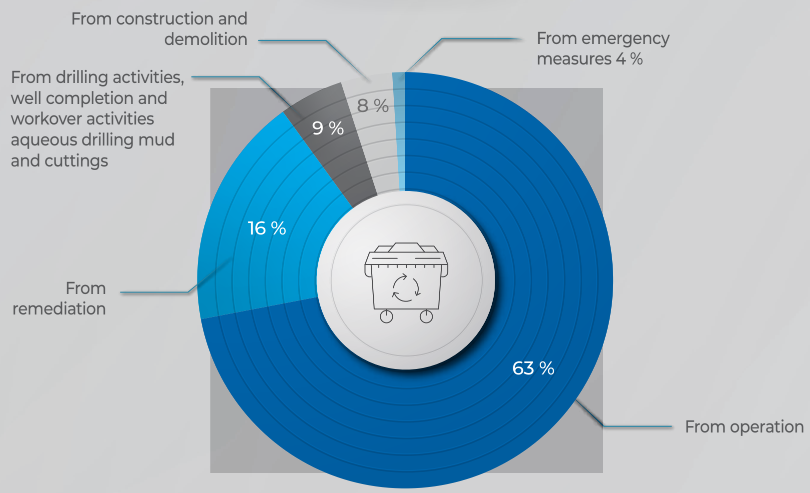
Out of total waste generated in 2019, 13,589 tonnes of waste was recycled and 15,272 tonnes of waste disposed. Amount of hazardous waste exported significantly increased (580 tonnes) compared to 2018 (4.2 tonnes) due to turnaround and dismantling and treatment of tetraethyl lead installation in Rijeka Refinery, and waste alkali generation in Sisak Refinery due to several shut downs and start-ups of units.

ENVIRONMENT

INA GROUP WASTE GENERATION AND DISPOSAL METHODS (t)	2019
TOTAL AMOUNT OF WASTE GENERATED	**28,944**
Hazardous waste generated	15,632
Non-hazardous waste generated	13,312
TOTAL AMOUNT OF WASTE DISPOSED	**15,272**
Hazardous waste disposed	10,353
Non-hazardous waste disposed	4,919
TOTAL AMOUNT OF WASTE RECYCLED	**13,589**
Hazardous waste recycled	5,321
Non-hazardous waste recycled	8,268
TOTAL AMOUNT OF WASTE DISPOSED AND RECYCLED*	**28,861**
Hazardous waste disposed and recycled	15,674
Non-hazardous waste disposed and recycled	13,187

In accordance with the Act on Sustainable Waste Management (OG 94/13, 73/17, 14/19) and the Ordinance on waste management (OG 117/17), waste transfer note only includes information on "D" or "R" code, so in the process of waste handing by waste disposal contractor, waste producers in Croatia do not know which specific process will be used for treatment of their waste
**The difference between Total amount of waste generated and Total amount of waste disposed and recycled amounts to 0.29% and refers to the waste produced at the end of 2019 but not disposed or recycled during the same year*

DISTRIBUTION OF INA GROUP GENARATED WASTE FROM DIFFERENT ACTIVITIES



Thanks to our Used Cooking Oil project and better response of citizens, 6.5 tonnes of used cooking oil was collected in our Retail network in 2019. In two years since the project started, nine tonnes of used cooking oil from households was collected. Project has been included in the first Croatian Voluntary National Review and presented at the UN High Level Political Forum on sustainable development in New York in July 2019, as one of the examples of good practices from Croatian business sector. This green service is recognized for protection of environment and contribution to the achievement of four sustainable development goals (Clean Water and Sanitation, Quality Education, Sustainable Cities and Communities and Responsible Consumption and Production).

AIR EMISSIONS

305-7

During the major turnaround of the Rijeka Refinery, in addition to the implemented energy efficiency improvement projects, the refinery facilities have been upgraded with new best available technologies for reducing emissions into the air, such as new facility for additional treatment of acid gases and equipment for removing particulates from flue gas prior to the release to the atmosphere. In parallel with these activities, preparatory work for a Residue Upgrade Unit project is underway. All of this will increase energy efficiency, further reduce the environmental impact of refinery operations, increase reliability and ensure a regular market supply. At the end of 2019, the INA, d.d. Management Board decided to invest in a Residue Upgrade Unit project, facility for treatment of heavy residues at the Rijeka Refinery, the commissioning of which is planned for 2023. By investing in this project, in the reconstruction of existing plants, a new port with a closed coke storage and greater overall complexity, the Rijeka Refinery will become a modern European refinery. Thanks to this facility, the product structure will be improved in a way that the proportion of profitable white products will increase and INA, d.d. will be more prepared to respond to changes in legislation adopted by the International Maritime Organization (IMO) concerning high sulphur marine fuel oils, i.e. reducing the sulphur content of marine fuels from 3.5% to 0.5%.

In 2019, the total SOx emission decreased by 46%, NOx and CO emissions decreased by 25%, while dust emissions remained at approximately the same level in comparison to the last year. Emission reduction was mainly influenced by extensive Rijeka Refinery turnaround, lower processing in Sisak Refinery and better quality of refinery gas.

Every year we perform Leak Detection and Repair (hereinafter: LDAR) program at our major facilities. LDAR is performed on equipment with the potential to emit fugitive emissions with infrared camera that visually displays the slightest leakages on equipment elements and installations through which fluid flows. Leak detection is performed annually and repair of leaks is undertaken immediately or within defined time frames, in accordance with the site maintenance plan.

AIR EMISSIONS
(in thousands of tons)

WATER

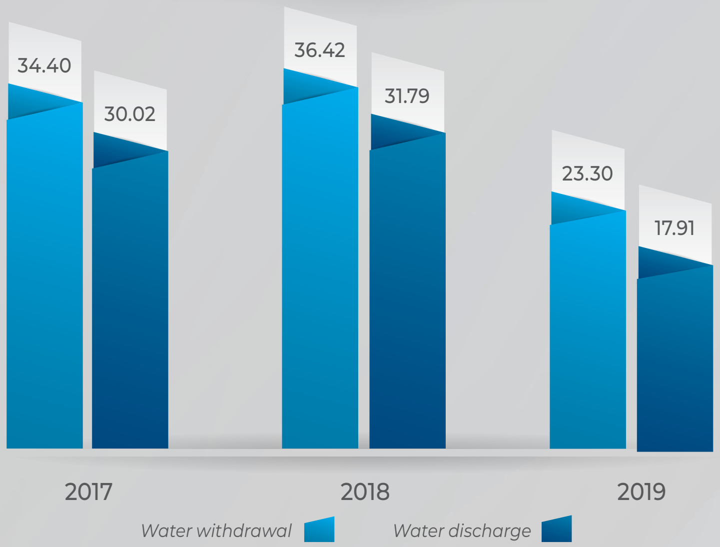
303-1, 303-2, 303-3, 303-4, 303-5, 306-1, OG 7

Water is an important resource for oil and gas production, from exploration and production operations to refining. INA Group is aware that water resources have to be used efficiently and that improving water efficiency not only reduces our environmental footprint but often leads to a reduction in operating costs. The water used for different operational activities at INA Group comes from various sources: it may be surface or groundwater, municipal water supply and sea water. All wastewater generated at refineries is treated at associated, multiphase wastewater treatment plants and then discharged at specific, designated and controlled spots, in accordance with the legal requirements. Only cooling sea water discharged to the sea is not treated because the quality of water remains unchanged. The main types of wastewater generated are process, cooling, storm water and sanitary water.

None of the total water withdrawn comes from water stress areas. Water consumption data are collected in INA Group reporting system dedicated for data collection and reporting.

Total water withdrawal in 2019 (23.30 million m^3, i.e. 23,300 mega litres) decreased by 36% compared to last year mainly due to turnaround in Rijeka Refinery, lower processing in Sisak Refinery and repair activities at sanitary water system. Total volume of discharged water was 17.91 million m^3 (i.e. 17,910 mega litres).

TOTAL INA GROUP WATER
WITHDRAWAL AND DISCHARGE (million m^3)



INA GROUP WATER WITHDRAWAL BY SOURCE (2019)*	MILLION M³	MEGA LITRES
Freshwater withdrawal – groundwater	1.58	1,578
Freshwater withdrawal – surface water	7.28	7,276
Freshwater withdrawal – municipal water	1.08	1,082
Non-freshwater withdrawal from sea	13.02	13,023
Produced Water – sour water stripper and/or tank bottom draws	0.34	340
TOTAL	**23.30**	**23,300**

*INA Group neither collects rainwater nor uses waste water from another organization; 1 mega litre = 1,000 m^3

HUMAN CAPITAL

"Capitalize on human resources"

102-41, 103-1, 103-2, 103-3

Achievements

- Centralization of HR activities at INA Group level
- Implementation of referral program
- Implementation of blue-collar sourcing strategy

Challenges

- Improvement of wellbeing platform
- Further roll-out of blue-collar sourcing strategy
- Further focus on Diversity and Inclusion actions

HUMAN CAPITAL MANAGEMENT IN INA GROUP

The internal regulation "Defining development needs, planning and delivery of development and educational programs in INA Group companies" sets out the main steps, tasks and accountabilities in the process of implementing developmental and educational policy in INA Group companies, while defining educational needs, planning development and education, types of developmental and educational processes, rights and obligations during the education and after completion of the education, as well as evaluation of return on investment through the application of acquired knowledge. The final goal of implementation of a selected developmental or educational program is increasing employees' competencies with the aim of affecting their work performance and generating added value for the company. In 2019, Area Book was introduced as a parent document for all HR processes in INA Group companies. It defines nine main processes and 27 sub-processes which are expected to be improved yearly.

EMPLOYEE RELATIONS

Social Dialogue with Trade Unions and Works Council

401-2, 413-1

Social dialogue in INA Group has continuously improved through cooperation with the Works Council (hereinafter: WC) and Trade Unions (hereinafter: TU), which is practiced through regular meetings between HR and the social partners, including negotiations on employee fringe benefits (collective negotiations, negotiations on social clauses relating to compensation for employees included in optimization and restructuring projects). During 2019, 21 regular meetings with the TU and WC were held in INA, d.d.

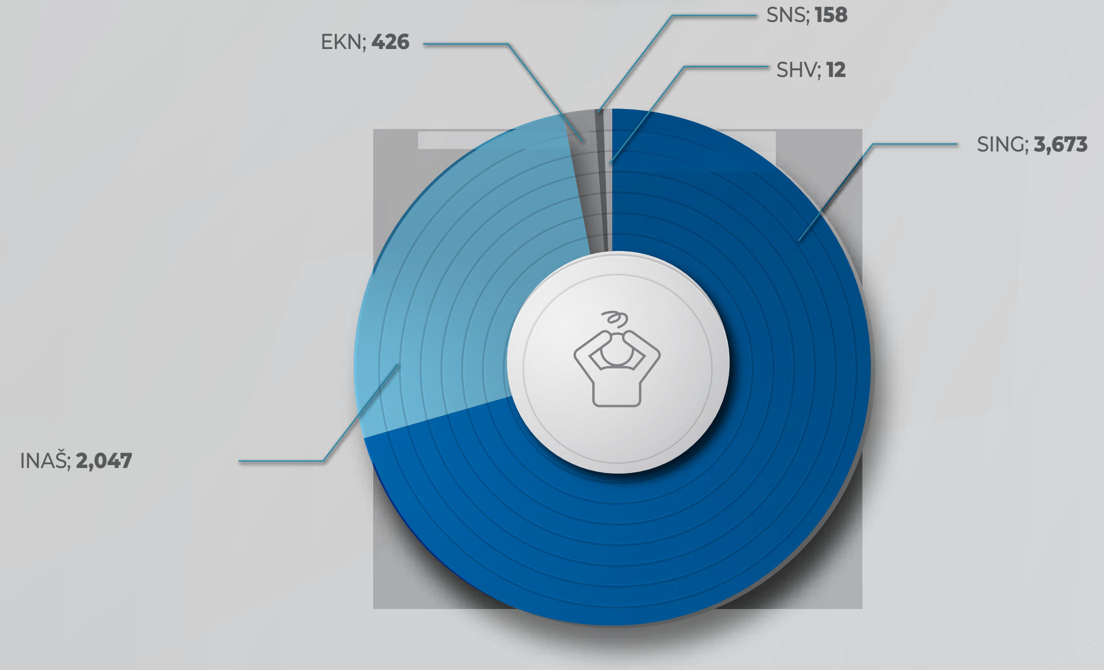
In line with the Collective Agreement (hereinafter: CA), the employer provides quarterly reports to TU representative regarding overtime work, number and type of employees employed, structure of employment, etc. The employer informs the WC about business results and state of affairs, as well as organization of work, expected development of business activities and their impact on the economic and social position of workers, extent and changes in the salaries, number of employees and labor costs, extent and reasons for introduction of overtime, number and type of workers employed by the employer, structure of employment (part-time and dislocated employees, employees employed via temporary employment agencies, etc.), protection of health and safety at work and measures to improve working conditions, results of conducted inspections in the field of labor and safety at work, and other issues particularly important for the economic and social position of workers.

Six companies have the Collective Agreement signed for an indefinite term (INA, d.d., STSI d.o.o., INA MAZIVA d.o.o., TOP RAČUNOVODSTVO SERVISI d.o.o., PLAVI TIM d.o.o. and HOSTIN, d.o.o.), while two companies (INA MALOPRODAJNI SERVISI d.o.o. and CROSCO d.o.o.) for a definite term. INA VATROGASNI SERVISI d.o.o., new operating company as of 1 July 2019, does not have a Collective Agreement signed, thus the material and other employment rights are derived from INA, d.d. Collective Agreement for a period of one year (1 July 2019 – 30 June 2020).

Trade Unions initiated collective negotiation in all INA Group companies, thus the bargaining is in process.

Five Trade Unions are active in INA Group and employees independently decide on their membership in either of them, SING - Oil Industry Union, INAŠ - Oil Industries Trade Union, EKN - Autonomous Trade Union of Workers in Energy, Chemistry and Non-Metal Industry of Croatia, SNS - New Solidarity Trade Union and SHV - Croatian Drivers' Trade Union. In INA Group, 60% of employees (6,316) are members of Trade Unions, while more than 12% are members of more than one Trade Union. The number of INA Group employees in Trade Unions as at 31 December 2019 is shown in the pie chart below.

TRADE UNIONS AND NUMBER OF MEMBER EMPLOYEES



Employee assemblies and other ways of direct communication with employees

The purpose of Employee Assemblies (hereinafter: EA) is to improve the relationship and direct communication between employees and management and to inform the employees of the company strategy and strategy for specific organizational units, as well as the tasks and targets.

Safety-At-Work Commissioners

Based on the Labor Act, Trade Unions conducted elections of safety-at-work commissioners in INA Group companies. There are 82 commissioners in INA Group (42 in INA, d.d., ten in CROSCO d.o.o., six in TOP RAČUNOVODSTVO SERVISI d.o.o., nine in STSI d.o.o., 11 in INA MALOPRODAJNI SERVISI d.o.o, three in INA MAZIVA d.o.o. and one in INA VATROGASNI SERVISI d.o.o.).

Committee for Amicable Dispute Settlement

The Committee for Amicable Dispute Settlement is prescribed by the CA. The Committee consists of two employer's representatives and three TU representatives.

Help for employees and their families in cases of serious illnesses

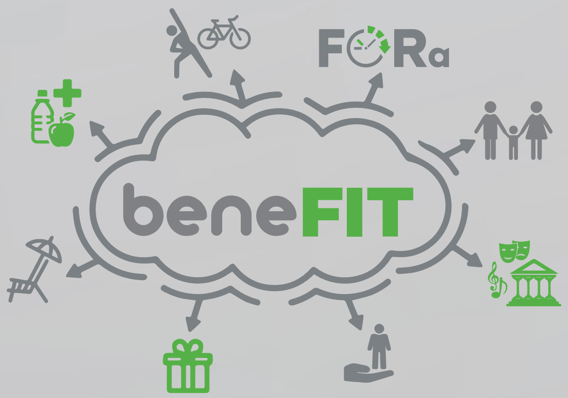
The committee for establishing the eligibility of employees to aid in case of illness reviews individual requests of employees, acquires expert opinions of the contracted primary health physician on the grounds of their request and the amount of necessary funds, and prepares proposals for decisions on allocation of aid within the framework of planned costs.

Within the approved budget, during the calendar year, the Committee approved aid in 11 cases - supporting the cost of medical treatment, purchase of drugs or certain aid supplies. These donations help our seriously ill employees or their family members to improve the medical treatment and their quality of life during illness.

REWARDS AND HR OPERATIONS

Benefits provided to employees

INA Group companies provide benefits to the employees within the Collective Agreement and within employee wellbeing **BeneFIT platform**.



Besides the benefits deriving from the Collective Agreement (e.g. Christmas bonus, Christmas gift for children, Easter gift, annual leave contribution, jubilee award, transportation contribution, additional health insurance, life and accident insurance, benefits for mothers and pregnant women, (un)paid leave for different purposes such as education or other important life events, financial aids in different undesirable situations, severance pay, etc.) INA Group has enabled a series of benefits to its employees in order to address all aspects of employee wellbeing and promote the importance of work-life balance.

BeneFIT platform is a strategy that aims to support employees in all of their life roles. The result is a constantly growing **platform that now provides more than 200 benefits** for using and/or paying for services and products in a total of 20 categories (Insurance; Sports and fitness; Shopping; Home; ICT; Parental benefits; Travel; Culture; Lifelong learning; Personal finance; Gastronomy, Personal care; Health; Cars and vehicles; Pets; Entertainment, Transport; Collective Agreement Benefits; FORa-flexible work arrangements; Other). The beneFIT platform actively promotes a culture of overall wellbeing via articles, targeted campaigns and trainings held via INA Academy. For example, in 2019 the focus was on healthcare and through continuous campaigns we observed an 11% increase in number of INA Group employees who went to their annual medical check-up (35% in 2018 and 46% in 2019).

In 2019, we organized a new campaign for nominating our sports ambassadors. Amongst many applicants, a total of six employees were chosen to be our sports ambassadors – people who would use their sports enthusiasm and team spirit to promote healthy lifestyle, recreation, and help organize corporate sports gatherings.

Additionally, we continued our activities to achieve an even more positive impact on health and the environment. We established a **bikeZONE community** where our employees could share and receive regular updates and information about all things regarding cycling. Moreover, by meeting the parameters prescribed in the certification standardized by the European Cycling Federation, INA, d.d. has fulfilled the criteria for obtaining two additional certificates. Our bikeZONE grew to two other business locations - Vukovarska and Lovinčićeva, marking the World Cyclist Day.

One of the most recognized wellbeing benefit among employees is **FORa – flexible working arrangements.**

From 2017 to 2019, we observed a 44% increase in number of FORa users, now available to employees of INA, d.d. and INA Group companies (PLAVI TIM d.o.o, TOP RAČUNOVODSTVO SERVISI d.o.o., CROSCO d.o.o., STSI d.o.o., INA MAZIVA d.o.o, INA Jadran d.o.o., Holdina d.o.o, INA VATROGASNI SERVISI d.o.o). With the aim of promoting work-life balance of our employees and improving business efficiency and productivity, employees are offered the following flexible forms of work:

- **Flexitime** – working hours with variable start and end times within basic, predefined rules)
- **Flexiplace** - the form of work in which the employee may from time to time, at their own request, perform work from home or other place of work, when circumstances and type of work permit so).

FORa

HUMAN CAPITAL

Some of the aims of flexible working arrangements were: achieving a better work-life balance and reducing stress for employees, increasing employee satisfaction and motivation, encouraging diversity, improving business effectiveness and leverage creativity, productivity and innovations of our employees, increasing commitment and entrepreneurship of employees.

From 2015 to 2018, we observed a 36% decrease in short-term sickness hours, 67% decrease in overtime hours for non-shift employees and 30% decrease in voluntary turnover in contrast to data from 2015 at the start of implementation of FORa. During all this time, average individual performance ratings for employees using FOR-a grew or remained flat. Based on the data and feedback from employees, FOR-a has ensured better work-life balance, increased employee satisfaction, motivation and engagement, increased possibility to attract, recruit and retain talented employees, reduced absences and late arrivals, reduced short-term sick leave and overtime work and ensured a positive company culture and company image, both internally and externally.

Recognition & reward system

INA Group has a comprehensive and well-rounded employee recognition system closely associated with our corporate culture. The purpose of recognition and reward systems is to promote and reward desired values, behaviours, achievements and teamwork.

Some of the recognition and reward programs are listed below:

- Presidential Award
- Lifetime Achievement Award
- Eiffel Program
- Best INA Academy Trainer
- Award your colleague (Best Colleague, Best Mentor, Best Manager, Think Green, Big Heart, Heartfelt Smile)
- Recognition Program for Extraordinary SD&HSE Contribution (SMART Employee, SMART Constructor, SMART Project Collaboration)
- Recognition for projects

TALENT ATTRACTION AND CAREER DEVELOPMENT

Career development

404-1, 404-2, 404-3

In order to ensure sustainability in human capital, performance, competencies and potential of each employee are assessed and individual development plans (hereinafter: IDPs) are created, as input for further development. All INA Group employees receive regular feedback on their performance and development at least once a year.

Employee engagement survey was held in 2019 with noticeable positive difference of 20% in employee opinion on career opportunity.

AVERAGE HOURS OF TRAINING PER EMPLOYEE	2017	2018	2019
BY GENDER			
INA Group (male)	16	20	16
INA Group (female)	20	24	22
BY BUSINESS SEGMENT			
Exploration and Production	21	22	25
Refining and Marketing	29	26	24
Consumer Services and Retail	22	17	21
Corporate functions	24	22	32
INA, d.d.	24	22	25
INA Group	18	21	20
BY EMPLOYEE PERFORMANCE MANAGEMENT SYSTEM			
Employees in APC	68	63	62
Employees in SURU	24	21	23
Employees in MPM	13	16	10
MB member	29	13	18
BY LEVEL			
Executor	19	16	15
Expert	33	32	16
Growww	38	40	40
Manager	36	61	77
Senior expert	33	45	45

NUMBER AND PERCENTAGE OF EMPLOYEES RECEIVING REGULAR FEEDBACK	2017	2018	2019
INA Group (male)	8,272 (76%)	8,245 (76%)	7,974 (75%)
INA Group (female)	2,612 (24%)	2,604 (24%)	2,605 (25%)
TOTAL INA GROUP	**10,884 (100%)**	**10,849 (100%)**	**10,579 (100%)**

HUMAN CAPITAL

Implemented internal and external development programs are shaped to increase the overall level of competencies within INA Group in the area of technical, professional or general business knowledge and skills. Majority of development programs combine various development methods such as: self-learning, classroom workshop, online learning, on-the-job training and professional practice, each presenting an integrated platform known as the "blended learning approach".

Technical Competence and Career Development program

In 2019 the **Technical Career Ladder program** (hereinafter: TCL) was redesigned under the name Technical Competence and Career Development program (hereinafter: TCCD) with the goal to ensure that main focus is the development and reception of technical knowledge for all program participants. Knowledge and other technical competences are assessed for every petrol-technical professional (hereinafter: PTP) and in accordance with that IDPs for every PTP are created. Assessments give insight to knowledge gaps of every PTP and they can see which competencies they should improve. This provides the PTP's, their managers and the company valuable insight which areas need to be developed in order to maintain sustainable business processes.

As of 2016, both Exploration and Production and Refining and Marketing professionals are included in the program with new experts added every year due to scope expansion. In 2018, an expansion was made with inclusion of non-technical employees from functional divisions such as HR and IT. In 2019, the expansion continued with Procurement and Finance, with further expansion expected in 2020. In 2019, 635 workers are included in the TCCD (Exploration and Production – 260, Refining and Marketing – 220, HR – 40, Procurement – 60, IT – 55).

Leadership and employee development

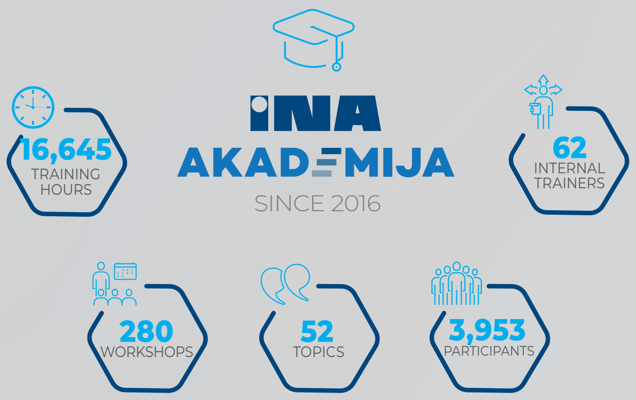
In order to enable and ensure development of all employees, INA Group provides a large selection of development opportunities for all. By participating in MBA programs from Cotrugli or selected programs from SEED Business School (Part-time MBA, Business Leadership Program, Foundation of Management Program), the employees are developing their leadership competencies. In addition, there is also the **LEAD talent program** for future leaders, **Intensity program, First time manager**, etc. which aim is to strengthen four leadership competencies (thought, result, people and personal), and prepare leaders for current and future challenges. As a result of investment in leadership competencies, employee opinion on leadership and top management has increased by 10% in the 2019 employee engagement survey.

Through different development programs and initiatives, as well as internal and external workshops based on individual development needs, which are available to all employees, INA Group ensures development and boosts employees to make them effective and efficient in their everyday challenges.

For a long time INA Group has been implementing various methods to evaluate the development potential of its employees and management, and the long-term goal is to know in a professional and objective manner the potential of all its employees, for it to be used by the company for the best possible outcome of both employees and companies. Developmental assessment centres have been used extensively for this purpose resulting in nearly 500 employees participating in such programs in 2019. The greatest benefit for the employees included in assessment centres is that they receive expert feedback on their strengths and improvement areas, which is then used to create development activities.

INA Academy

Internal knowledge sharing is one of the most effective sustainability tools when it comes to human capital. In 2019, new trainings were included to keep track of employees' needs and a **new training category was introduced – the Wellbeing**. With one of the strategic goals of increasing the employee wellbeing in mind, trainings that support employee mental health care and personal finance were created. Some of these trainings were created with external trainers, which was the first time that external trainers participated in INA Academy. Also, in 2019, a new digital platform for knowledge examination, e-INA Academy, was introduced.



Talent attraction

401-1

For the last decade, INA Group has been strategically planning, attracting and employing white-collar young talents due to anticipated future business need caused by aging of the top oil and gas experts. Attraction and recruitment programs for young graduates have been continuously implemented. This year **Growww program** and **Female Engineers MOL Programme** (hereinafter: FEMP) continued with a great success. We received more than 600 applications for 24 Growww positions and almost 30 applications for FEMP. Among three awarded female students, there was a Croatian student again this year. Besides that, this year we put more emphasis on the blue-collar population. Based on the future business needs, in 2019 INA, d.d. signed a contract with 18 vocational schools.

Two scholarships were given to students in the School of Natural Science and Graphic Arts Rijeka and at the end of the year, a tender for 27 scholarship application in engineering, electrical engineering, chemical technology, ecology, geology, traffic and logistics, petroleum mining was opened. More than 200 applications were received and a selection process will be held at the beginning of 2020.

During the year, INA Group actively participated in different programs and projects to support and improve vocational education such as:

- Promotion of Oil and Gas subjects among chemical technicians in Rijeka at the beginning of the year along with the scholarship
- Science picnic (for all secondary schools) - promotion of INA, d.d. Central Lab and rock exploration
- Udruga Dar conference
- Natural Sciences and Graphic Arts School Rijeka – Summer school of chemistry
- Worldskills - national vocational school competition
- Technical High School of Ruđer Bošković – school's Open Days support
- Electrical Engineering and Traffic School Osijek – visit to INA, d.d. facilities in Osijek
- Our experts became members of working groups for creating new profession standards (leader of the program is the Agency for Vocational Education and Training and Adult Education)
- More than 100 individual and group practices were conducted

To support the technological development of the school system, 150 computers were donated to ten schools.

Employer branding

INA Group is dedicated to being **1st choice employer** and we have received various and prestigious awards for excellence in human resource management, awarded by the general public, human resources experts community and student associations.

We are committed to building open communication with the general public and therefore are seeing a steady growth in followers on social networks. For example, we have more than 32,000 followers on LinkedIn and more than 100,000 followers on Facebook.

Some of the awards and certifications are:

- Employer Partner Certificate
- TOP 10 Employers in Croatia
- Croatia's Best Employer Brand Awards 2019 in the following categories:
  - Best employer brand activity - student programs (topic: Growww),
  - The best Employee Branding brand in the technology sector
- Golden Index 2019 in the Scholarship category

You can read more about these awards in the 'Awards and Recognitions' section.

Engagement, Diversity and Inclusion

At the end of 2019, a new Employee Engagement Survey was conducted. As a driver of engagement, diversity and inclusion has increased by 11% since the last survey. The overall results will be communicated at the beginning of 2020 and action plans will be created.

One very important driver of engagement, which is continuously worked on, is Diversity & Inclusion (hereinafter: D&I). As a company, INA, d.d. builds a culture of D&I in line with its fundamental values and with the aim of attracting, hiring and retaining talents and its employees.

In 2019, INA Group companies continued with educating employees and raising awareness of the D&I topic. Through different presentations, events and workshops employees were shown why it is important to have a diverse workplace and how they can manage and cooperate better with different people. In addition, Diversity & Inclusion Policy has been complemented by the Disabilities category to further raise awareness of the importance of including people with disabilities as valuable employees, and to find a way to encourage their better integration into the system.

Our devotion to this topic is confirmed by several awards received in 2019 for INA Group D&I strategy:

- MAMFORCE Certificate
- **Employer of the Year for People with Disabilities Award in the category Best Practices**
- **OPEN Spotlight Award** in category Excellence in Belonging,
- **Corporate social responsibility (CSR)** index in category Socially responsible policies of diversity and protection of human rights,
- **Golden Barrel Award 2nd** place in the category People & Culture
- **Croatia's Best Employer Brand Award** in the category Progress in implementation of employer branding activities (topic: D&I strategy)

You can read more about these awards in the 'Awards and Recognitions' section.

HUMAN CAPITAL

COMMUNITIES

"Enhance trust and credibility among stakeholders"

203-1, 213-1

Achievements

- 165 projects in local Exploration and Production and Refining and Marketing communities supported
- INA Volunteers Club organized 54 actions with participation of 771 volunteers and 6,168 volunteer hours in 2019
- 18 Green Belt projects from open tender

Challenges

- Implementation of Green Belt projects in 2020
- Proper reaction to local communities demands
- Continuation in social investments in health care, children's needs, educational projects, environmental protection

COMMUNITY RELATIONS AND SOCIAL INVESTMENTS

Community relations, transparency, trust, and partnership-based relations with local communities are key to ensuring that we are a responsible and welcomed partner wherever we operate. We acknowledge that the presence of our business has direct and indirect impact on local communities. We aim to steer the impacts of our business activities in a positive direction by maintaining community relations and investing in local development. Community development initiatives are always steered by local needs and in consultation with local stakeholders as well as Sustainable Development Goals priorities.

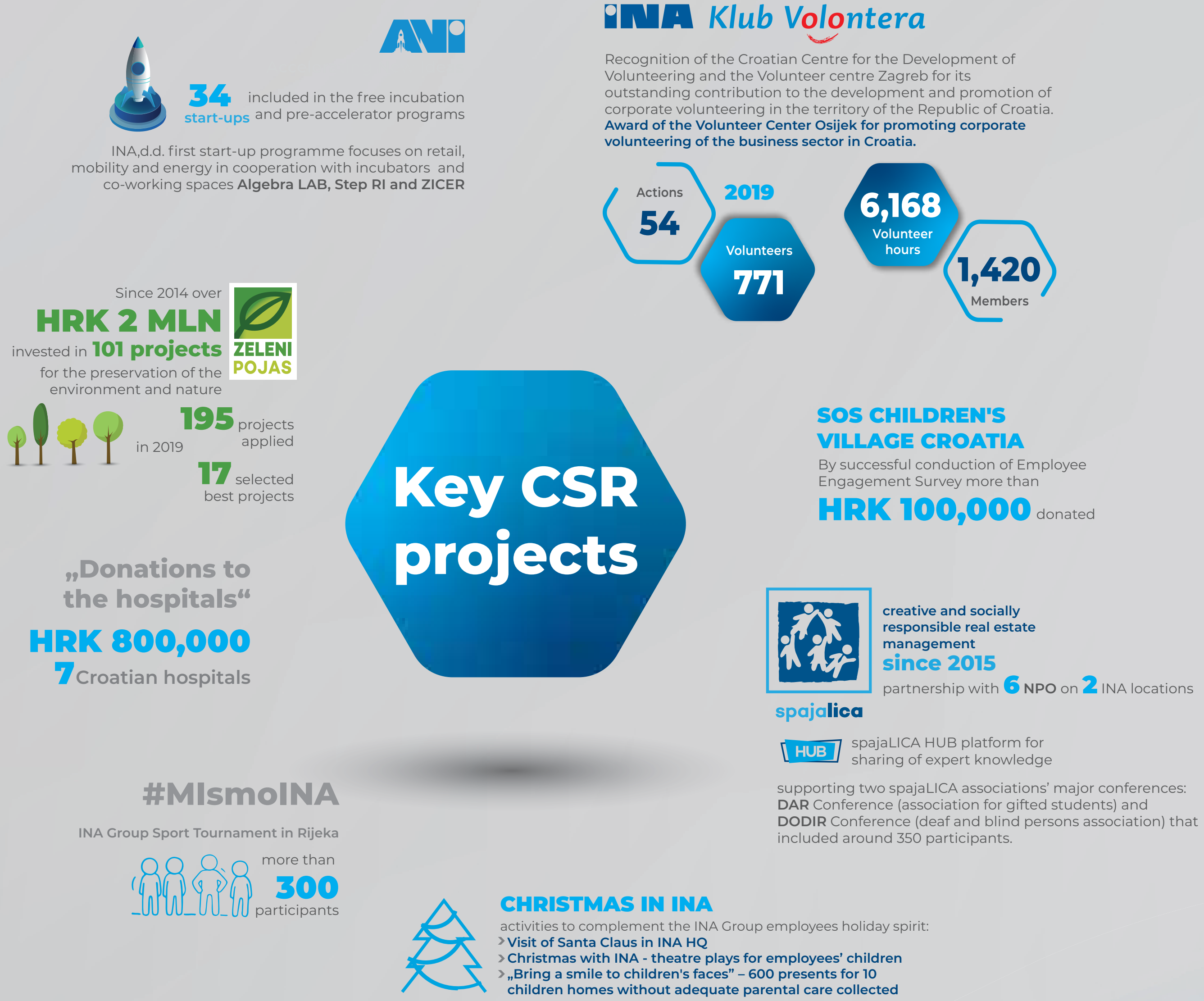
Relations with the local communities are defined by the Manual for the Management of Social Engagement Activities. Local community members (individuals, local leaders, non-profit organisations, municipalities, associations, etc.) are involved in a business activity that has an impact on the communities in which it takes place.

Relations with the local Exploration and Production and Refining and Marketing communities

INA Group continues to support projects particularly in Refining and Marketing location in Primorje-Gorski Kotar County, Solin and Sisak; and Exploration and Production location in the eastern, central and northern Croatia. Focus is especially on helping children, young people, health care institutions and projects that contribute to the quality of life of the local communities. In 2019, INA Group supported **73 projects in Exploration and Production operating areas** (eastern Croatia– 13 projects, northern Croatia – 23 projects, central Croatia 23 projects, Zagreb – seven projects, conferences and institutions - 7) and **92 projects in Refining and Marketing operating areas** (Primorje-Gorski Kotar County – 55 projects, Sisak – 32 projects, conferences and institutions - 5).

Another Open Door Day in Rijeka Refinery was organized in 2019. The event gathered 60 local government and media representatives, around 200 refinery employees and their children as well as local elementary schools pupils. Besides that, support for the Municipality of Kostrena projects, Red Cross Society Rijeka, Primorje-Gorski Kotar County Kindergartens Olympics, construction of Health Centre parking lot, Handball Academy RINA, Rehabilitation Centre Fortica, Recreational playground in Solin, Humanitarian Carnival Ball, "Homo si teć" street race, "Fiumanka" regatta and the most important cultural manifestation in Croatia in 2020 – "Rijeka European Capital of Culture" was provided.

In Sisak-Moslavina County, INA Group supported gifted students in Sisak Technical School, Gifted Children Foundation, Red Cross Society Sisak, Croatian Mountaineering Society and Sisak Tourist Board. Furthermore, INA Group continued its support for persons with disabilities associations and projects in educational institutions such as Technical School Đurđevac project "solar vehicle" and Technical School Slavonski Brod "solar bench". Main cultural institutions and manifestations in upstream regions such as the Croatian National Theatre Osijek and "Vinkovačke jeseni" - the most important cultural manifestation in the eastern part of Croatia, were supported.



ETHICS AND GOVERNANCE

"Focus on responsible operations and long-term economic development."

102-16, 102-17, 102-18

INA GROUP ETHICS MANAGEMENT

INA Group Code of Ethics (hereinafter: CoE) defines the basic values and principles of conduct of the INA Group management and employees in terms of their attitude towards work, associates, business partners and the public. The CoE also sets obligations of INA Group to secure appropriate work conditions and professional development to employees and ensure avoidance of unacceptable forms of behaviour. The CoE covers a broad area of business relationships and processes and has to be observed by all persons acting in the name and on the behalf of INA Group, including natural persons or legal entities who are in a contractual relationship with INA Group (business partners, consultants, suppliers, sellers, etc.). INA Group companies neither endanger the rights of indigenous communities with their business operations, nor use children or forced labour, and require the same from their suppliers. In addition, they do not provide financial or any other kind of assistance to political parties, politicians and related institutions.

The task of the **Ethics Council** (hereinafter: EC) is to monitor the implementation of INA Group Code of Ethics and its application in case of Code breaches. Permanent members of the EC are high and medium level managers and an employee representative. The chairperson, prof. Viktor Gotovac, is an external expert responsible for fairness of procedures. When it comes to procedures related to protection of dignity, ad hoc Council members will also partake, i.e. a Trade Union (hereinafter: TU) or Works Council (hereinafter: WC) representative, in addition to the permanent EC members. **Preparatory Council** is a core EC team, composed of the President of INA Group EC and two Operating Directors with main tasks to examine whether the reported case falls within the competence of the INA Group EC and to decide whether the information and evidence described in the report constitute grounds for the initiation of ethical procedures.

Operational work of the EC (e.g. operating grievance mechanism, investigation, and consequence management) is assisted by **Local Ethics Officers.** Local Ethics Officers are appointed in INA Group companies with more than 20 employees.

INA Group CoE aims to provide all internal and external stakeholders with an overview of ethical norms which INA Group companies consider to be essential for their successful operation, both within and outside INA Group companies.
Internal and external stakeholders have a possibility to report an ethical misconduct or seek advice in writing (by post, via e-mail or the internet) and through a 24/7 phone message recording system. Anonymous complaints and questions may be submitted, with ensured confidentiality. When reporting an unethical conduct, the reporting person must respect the rights of the person that they have reported. Thus, it is forbidden to disclose or forward personal data of the person being reported to any INA Group member companies or to third parties not concerned with the ethical compliance issue in question.

In the event of any ethical concerns, employees may first contact their line manager. Help or advice can also be sought from HR or Legal, or competent organizational units/persons performing such tasks in the relevant INA Group company. Should an employee ever feel uncomfortable to use these channels, they may, at any time, contact INA Group EC or the ethics officer in the relevant INA Group member company.

INA Group Code of Ethics is available on the intranet and INA website, and is translated to languages of countries where INA Group companies operates.

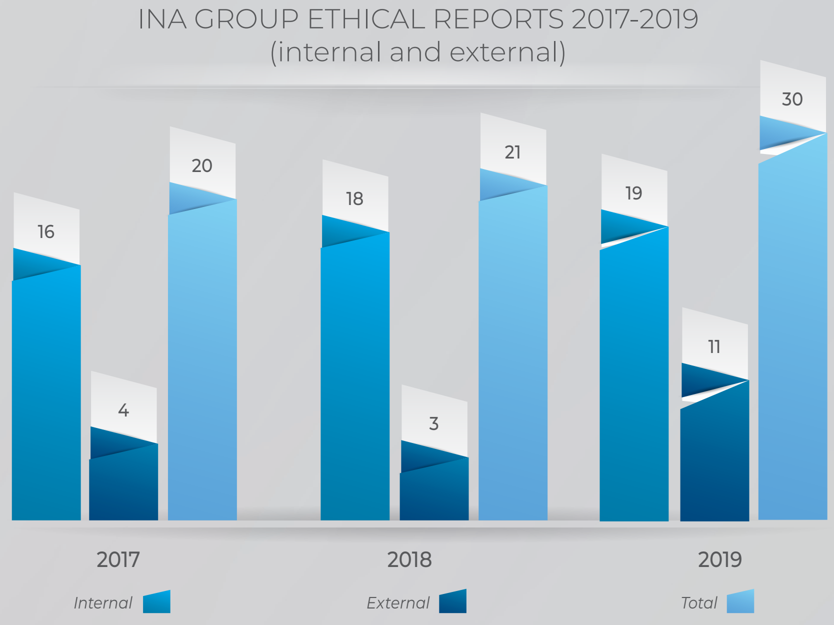
INA Group does not engage in and does not tolerate corruption in any form (including bribery, facilitation payment, kickback, extortion, misuse of authority for personal gain, undue benefits or gifts with the intent to influence), whether in the private or public sector on any scale. We maintain this view, even if our commitment to this policy places INA Group in a non-competitive business position, or if speaking up against such activity results in INA Group losing business. Throughout our entire value chain, within our social patronage, charity and sponsorship fields, we are committed to a zero-tolerance policy when it comes to corruption and bribery.

Our Compliance unit's task is to assist the employees and managers in navigating through the growing and challenging regulatory framework concerning the areas of competition law, personal data protection, consumer protection, international sanctions and anti-money laundering. Compliance unit is doing so by conducting engaging and tailor-made training activities concerning these areas.

Ethical Procedures

There were four established INA Group Code of Ethics breaches identified in investigations conducted based on reports submitted during 2019 which resulted with disciplinary measures (two written warnings). There were no cases with elements of any type of discrimination.

The diagram represents an overview of ethical internal and external reports in INA Group in the period from 2017 until 2019.



EDUCATION ON THE CODE OF ETHICS

102-16, 102-17

INA Group employees are included in the training activities, with the aim of raising awareness of the importance of ethical conduct in business operations and promotion of sustainable development, commitment to responsible business and long-term economic development, with overall 6,886 employees included. In 2019, the President of INA Group EC held ethical trainings for focus groups, 23 newcomers, i.e. Growww population and managerial population (49 participants) –72 attendees in total.

COMPLIANCE

206-1, 307-1, 419-1

As a part of the largest industrial company in the Republic of Croatia and neighbouring countries, INA Group companies adhere to all laws of the Republic of Croatia and monitor all and any risks associated with changes in the legislation, which may or will have a significant impact on their business.

In 2019, no criminal procedures or anti-competitive practices, no disputes related to health, safety and environment and quality of products/services were initiated against INA Group companies. There were also no incidents recorded in 2019 regarding non-compliance in marketing communications and there were no complaints concerning breaches of customer privacy and losses of customer data.

In total 28 **misdemeanour** cases were initiated against INA Group (four against INA, d.d., one against CROSCO d.o.o, eight against Energopetrol d.d. and 11 against Holdina d.o.o.).

A total of two **discrimination procedures** were initiated against Energopetrol d.d. The stated discrimination procedures initiated against Energopetrol d.d. are not cases of typical discrimination. However, discrimination is cited as the basis in both cases/lawsuits initiated/filed against Energopetrol d.d. in 2019. Namely, particularity is that the employees did not file a lawsuit in 2014 for the payment of salary differences under the Labour Law. Since the statute of limitations in the aforesaid case had arisen/occurred, mentioned employees have filed a lawsuit(s) against Energopetrol d.d. in 2019 on grounds of discrimination and in which lawsuit(s) they are claiming a payment of salary differences.

In 2019, a total of 18 **grievances from local communities** in Rijeka Refinery and Sisak Refinery and Exploration and Production vicinity were reported regarding environmental issues and all were resolved during the reporting period.

During 2019, INA Free Phone 0800-1112 received a total of 37,617 contacts from customers, which is 19% more than in the previous year. From the received contacts, there were 35,852 information including notifications related to LPG complaints for Wholesale, 546 complaints, 493 compliments and 14 proposals.

CUSTOMERS AND SUPPLIERS

Customers

102-43, OG 8

Customers, as one of our four core values, are just as important at our sites as they are in our offices or at any of our service stations. We wish to offer our customers on the road, at their workplace or at home, quality and safe energy. INA Group has been supplying products to people and businesses in Croatia and the region for over 50 years. Through high quality products, we endeavour to win and retain the trust of our customers and clients. Our broad network encompassing 511 service stations and the well-organized wholesale, offers different types of motor fuels produced in accordance with the European standards. Our service stations offer Euro V fuels and our latest additized INA Class Plus fuels that both improve the features of your car and protect the environment. In addition to gasoline and diesel fuels, various types of oils and lubricants, LPG and heating oil, INA production program also includes a variety of products for our industrial customers.

ETHICS AND GOVERNANCE

Customer satisfaction survey in Croatia

Wholesale

INA is a company that places customers at the heart of the organization, strongly customer focused insisting on the development of partnerships as well as creating additional value for customers.

89% quite/exceptionally satisfied customers

98% would recommend INA, d.d. to their business partners and acquaintances

100% intend to extend cooperation/keep it at the same level

81% consider INA quite / significantly better than the competition

93% SATISFACTION WITH THE **SALES REPRESENTATIVES**

89% INA, d.d. IS A **TRUSTWORTHY COMPANY**

82% INA, d.d. **VALUES THEM AS CLIENTS**

85% INA, d.d. IS A **COMPANY EASY TO WORK WITH**

DERIVATIVES

89% QUITE/EXCEPTIONALLY **satisfied with cooperation**

Total satisfaction of INA oil derivatives customers has significantly increased compared to 2018.
The most important factors when choosing a supplier, for INA oil derivatives customers are: **price, quality of products, payment terms.**

Customers are most satisfied with: sales representatives, invoicing, reliability, contracting.

Improvement opportunities: complaints resolving, credit days, product quality (perception).

INA CARD

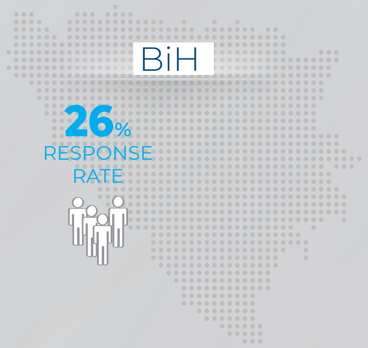
89% QUITE/EXCEPTIONALLY **satisfied with cooperation**

Total satisfaction of INA Card users increased compared to 2018. The most important factors when choosing a supplier, for INA Card users are: price, payment terms, quality of motor fuel, coverage (number of SS accepting INA Card).

Customers are the **most satisfied with**: use of INA CARD for highway toll payment, sales representatives, easy to use and track costs committed via card and invoicing.
Major improvement opportunities recognized are: use of INA Card for payment abroad, complaints resolving, credit days, fuel quality (perception).

Customer satisfaction survey in Bosnia and Herzegovina

Wholesale



82% quite/exceptionally satisfied customers

96% would recommend HoldINA to their business partners and acquaintances

80% consider HoldINA quite / significantly better than the competition

98% intend to extend cooperation/keep it at the same level

98% SATISFACTION WITH THE **SALES REPRESENTATIVES**

81% HoldINA IS A **TRUSTWORTHY COMPANY**

77% HoldINA **VALUES THEM AS CLIENTS**

72% HoldINA IS A **COMPANY EASY TO WORK WITH**

DERIVATIVES

89% QUITE/EXCEPTIONALLY **satisfied with cooperation**

Total satisfaction of HoldINA oil derivatives customers increased compared to 2018.
The most important factors when choosing a supplier, for HoldINA oil derivatives customers are: **price, quality of products, payment terms.**

Customers are most satisfied with: sales representatives, regular communication about the product, order processing.

Improvement opportunities: credit days, price/quality ratio, quality of product (perception), complaints resolving.

INA CARD

98% QUITE/EXCEPTIONALLY **satisfied with cooperation**

Customers are the most satisfied with: sales representatives, coverage (number of SS accepting card), easy to use and track costs committed via card, assortment of services at SS.

Major improvement opportunities recognized are: credit days, speed of issuing a card, contracting, quality of product (perception).

Image and Reputation research

Compared with other companies, INA has the most significant level of spontaneus memory

In comparison to other oil companies, INA is most often associated with claims on a wide network of service stations, oil and gas production and processing petroleum products.

The most common choice for the use of oil companies - INA (over 60%) and the first competitor 11%.

WHEN ASKED: **"INDICATE AN OIL COMPANY"**

97% of respondent spontaneously state INA

97% OF ALL RESPONDENTS USED INA'S SERVICES AT LEAST ONCE

81% RESPONDENTS SAW INA'S PROMOTIONAL ACTIONS

72% SAYS THEY LIKE INA AND AVERAGE RATING IS 4 - **"I LIKE IT"**

80% RESPONDENTS HEARD ABOUT CLASS PLUS FUEL

Product safety

416-1, 417-1

For safe management of our products, INA Group complies with REACH Regulation (EC/1907/2006) on the Registration, Evaluation, Authorization and Restriction of Chemicals. Aim of the REACH Regulation is to generate information on all chemicals in use in the EU for their safe use, and the most hazardous of them phased out. INA Group has registered all its substances, a total of 38 (INA, d.d. 36 and INA MAZIVA d.o.o. two), thus fulfilling the obligation of the REACH Regulation and can produce substances and place them on the EU market. Before placing chemicals on the market, the industry must classify, label and package them in accordance with the CLP Regulation (EC/1272/2008). The CLP Regulation ensures that the hazards posed by chemicals are clearly communicated to employees and consumers in the European Union through classification and labelling of the chemicals. The final aim is to reduce exposure to hazardous chemicals and prevent diseases, injuries and accidents. For information on REACH and CLP, please contact us at the address reachINA@ina.hr. Safety data sheets (hereinafter: SDSs) for all INA Group commercial products contain basic information about the product, risk data, toxicological and environmental data, recommendations on safety measures and transport information. SDSs for all our products are available on INA website and INA Maziva website. For additional information, please contact us at sds@ina.hr. In order to further raise awareness on chemicals, INA, d.d. promotes Responsible Care® (hereinafter: RC®) commitment to the safe management of chemicals throughout their life cycle. In 2019 INA, d.d. has started with reporting according to RC® indicators and thus received personalized poster from the Croatian Chamber of Economy, Responsible Care® Group.

Suppliers and contractors

In our relationship with suppliers, we start with the fundamental goal of building a business relationship and cooperation that will create added value for both parties in the business process.

For INA Group it means creating added value to our services and products through quality assurance, timely delivery, reliability of quantities, market-competitive and secure delivery of any materials or services in collaboration with the suppliers we partner with. Supply business is a material topic for INA Group considering its direct effects on the quality of business performance, considering the economic effects it has on the company and its impact on the national economy, starting from the fact that the majority of suppliers are from the Republic of Croatia.

Procurement has the task of securing the supply of necessary goods and services for the business at the appropriate time, quantity and quality, based on planned information on the investment. In order to accomplish this task, Procurement manages categories by defining strategies based on systematic market research.

Valuation of suppliers and supplier bids includes all elements:

- Price, payment and delivery times
- Quantitative and qualitative equipment performance
- Energy efficiency, possessing the necessary certificates
- Systems (Quality, Safety, Software)
- Experience, resources and know-how
- Safety certificates
- Previous performance
- Business stability of suppliers, etc.

INA Group suppliers must ensure sustainable and ethical business practices through policies, targets, management systems and processes that reflect the impacts and opportunities of the organization. In addition, they must strive for continuous improvement of their sustainability performance. Our suppliers must comply with applicable laws, rules and regulations as well as the standards relevant for their business. This requires systematic documentation and records. Non-conformities must be identified and addressed through appropriate controls.

Post evaluation of suppliers in terms of the requirements stipulated in the contracts are carried on a yearly basis with respect to overall contract and HSE requirements. In case of any non-compliances with HSE requirements found during on-site audits, the financial sanctioning of the supplier in question is proposed.

In 2019, INA Group achieved business cooperation with a total of 1,409 suppliers, 1,124 of which are domestic, which represents 80% of the total number. With foreign suppliers, 10% of total turnover was realized, while 90% of total turnover was related to domestic suppliers.

It is important to highlight that INA Group defines the mandatory minimal SD&HSE requirements for contractors performing hazardous works in INA Group companies, with the aim of protecting own and contractor's employees against occupational injuries and illnesses, as well as losses relating to extraordinary events, through all parts of the process (contracting, performance of works and works handover). Depending on the preliminary risk assessment, contractors are required to provide certain certificates, management systems or regulations, for example:

- Low risk level, the Bidder shall be obliged by Statement that they and their subcontractors shall comply with legal requirements and INA Group SD&HSE requirements
- Medium risk level shall prove the existence of safety management systems:
  - Certificate on Contractor safety SCC or SCCp
  - OHSAS 18001 and ISO 14 001 (both) certificates or
  - A successful pre-qualification audit implemented by an accredited certification authority contracted by INA Group (renewed within two years), or
  - A successful pre-qualification audit based on pre-qualification supervision (valid for two years) and post-evaluation by INA Group companies, or
  - Bidders who are on the list of MOL Group contractors shall not be subject to pre-qualification
- High risk level shall be subject to pre-screening and pre-qualification by proving the established SCC or SCCp certification for the company and workers.

ADDITIONAL SUSTAINABILITY DATA

Memberships, external initiatives and public policies

102-112, 102-13

ASSOCIATION	PARTICIPATION STATUS
European Petroleum Refiners Association (joined INA-MOL membership)	Member of the Scientific Council
UN Global Compact	Member
European Association of Communication Directors	Individual members
International Organisation for Industrial Hazard Management	Member
Society of Petroleum Engineers (Croatian Branch)	Member of the Presidency
Lower Olefins and Aromatics Consortium (LOA)	Member
CEEC-Central Eastern European and Caspian Scout Group	Member
IPLOCA - International Pipeline&Offshore Contractors Association	Member
International Air Transport Association (IATA)	Member
Croatian Chamber of Economy	Member of the International Chamber of Commerce (ICC) Croatia Executive Board, General Assembly and the ICC Commissions
Croatian Employers' Association	Member of the General Assembly and the Council of Members, member of the Economic and Social Council (GSV), INA's representative is the President of the Energy Branch Association
Croatian Gas Association	The main sponsor, member of the MB, INA's representative is the Vice-President
Croatian Association of Petroleum Engineers and Geologists	The principal founder
Croatian National Committee of World Petroleum Council	Member of the Presidency
Croatian Energy Association	Member of the Managing Board
Croatian Business Council for Sustainable Development Managing Board	Member
Croatian Standards Institute	Member
Croatian Exporters	Member
Croatian Geological Association	INA's representative is the member of the MB, SB and the Court of Honour
Academy of Technical Sciences	Member
Croatian Society for Quality	Member
Croatian Metrology Society	Member
Croatia Green Building Council	Member
Laboratoria Croatica	Member
Croatian Association of Corporate Treasurers	Member

ASSOCIATION	PARTICIPATION STATUS
International Chamber of Commerce (ICC)	Member
Croatian Information Technology Society – Society of SAP users	Member
Croatian Public Relations Association	Member
Croatian Water Pollution Control Society	Member
Croatian Society for a Healthy Work Place	Member
Croatian Institute for Health Protection & Safety at Work	Member
Association for the Advancement of Human Safety	Member
Croatian Association for Professional Fire-fighters	Member
Croatian Academy of Sciences and Arts	Member
Croatian Institute of Internal Auditors	Member
Croatian Fire-fighting Association	Member
Responsible Care Group	Member
Croatian Law and Competition Protection Society	Member

ADDITIONAL SUSTAINABILITY DATA

Economic sustainability data

DIRECT ECONOMIC VALUE GENERATED AND DISTRIBUTED (HRK MLN)	2017	2018	2019
Realised revenues	18,582	22,349	22,597
Financial assistance received from government	-	-	-
Operating costs	17,665	21,607	22,572
Cash added value (company cash)	428	422	606
Employee wages and benefits	1,803	1,927	1,970
Capital investors	152	812	1,250
Payments to governments	-	495	417
Economic value retained	827	1,036	207

INA GROUP REALISED REVENUE BY REGION (HRK MLN)	2017	2018	2019
Croatia	10,352	12,289	13,100
Bosnia and Herzegovina	2,238	2,966	3,251
European countries	4,755	6,420	5,614
Other countries	1,237	674	632
TOTAL	**18,582**	**22,349**	**22,597**

COSTS OF PURCHASED MATERIALS, GOODS AND SERVICES IN INA GROUP, EBIT, ROA	2017	2018	2019
Costs of purchased materials, goods and services (HRK mln)	14,291	3,605	7,114
INA Group profit earned - EBIT (HRK mln)	1,418	1,687	725
INA Group Return on Assets Profitability indicator (%)	6.33	5.64	2.27

**ROA (%) = Profit/(Total Assets) * 100*

INA GROUP PAYROLL COSTS (HRK MLN)	2017	2018	2019
Net	965	1,010	1,056
Taxes and contributions	615	657	640
Other salary expenses	223	260	274
TOTAL	**1,802**	**1,927**	**1,970**

INA, d.d. TOTAL TAXES PAID (HRK MLN)	2017	2018	2019
Croatia	8,406	8,882	9,393
Angola	55	11	5
Bosnia and Herzegovina	-	25	1
TOTAL	**8,461**	**8,918**	**9,399**

PAID VAT, EXCISE DUTIES, BIOFUELS FEE, PROFIT TAX, INCOME TAX AND SURTAX AND CROATIAN COMPULSORY OIL STOCKS AGENCY (HANDA) (HRK MLN)	2017	2018	2019
Value added tax	947	799	1,690
Value added tax (Import)	2,075	2.527	1,790
Corporate income tax (Profit tax)	0.83	0.32	-
Withholding tax	-	24.9	1.7
Excise duties	5,382	5,531	5,913
Biofuels fee*	-	72.4	80.6
TOTAL	**8,404**	**8,955**	**9,475**

**Special environmental compensation for not placing biofuels on the market*

Consolidation approach to sustainability data

102-45

Table below shows INA Group subsidiaries consolidated in the reported environmental data (waste, water, air emissions, spills and direct and indirect GHG emissions), energy data, as well as health and safety data within this Annual Report. Other subsidiaries listed in the consolidated financial statement (page 222) are excluded, because these subsidiaries are either not active, or if active they operate as offices with only a few employees and have none or insignificant impact on the environment, energy consumption and health and safety data. Environmental data (waste, water, air emissions, spills and direct and indirect GHG emissions), energy data, as well as health and safety data of associated and joint ventures companies are not included in this Annual Report.

NAME OF SUBSIDIARY	PROPORTION OF OWNERSHIP
INA MAZIVA d.o.o.	100%
HOSTIN, d.o.o.	100%
STSI d.o.o.	100%
CROSCO d.o.o.	100%
TOP RAČUNOVODSTVO SERVISI d.o.o.	100%
INA MALOPRODAJNI SERVISI d.o.o.	100%
PLAVI TIM d.o.o.	100%
INA Slovenija d.o.o.	100%
Holdina d.o.o.	100%
Energopetrol d.d.	88.66%
Rotary Zrt.	100%
INA VATROGASNI SERVISI d.o.o.	100%
INA Jadran d.o.o.	100%

List of legal OHS documents and best practices in INA Group

LEGAL REQUIREMENT MANAGEMENT DOCUMENTS	OHS BEST OIL AND GAS PRACTICES
Occupational health and safety regulation in INA, d.d.	Occupational health and safety system at INA Group Companies
Testing for alcohol and other addictive substances at INA Group Companies	Safe driving standard in INA Group Companies
Implementation of REACH Regulation at INA Group Companies	SD&HSE Aspects of Design, Construction, Commissioning and Decommissioning of Plants/ Facilities in INA Group Companies
Personal Protective Equipment at INA Group Companies	Health, Safety, Environment and Fire Protection Incident Reporting and Investigation System at INA Group Companies
Preparation of Safety Reports, Internal Plans, as well as Risk Assessments and Operational Plans by Legal Entities Performing Business Activities by Using Dangerous Substances in INA Group Companies	Life Saving Rules at INA Group Companies
Basics of the Fire Protection and Firefighting at INA Group Companies	SD&HSE Management in the Contracting and Service Procurement Processes in INA Group Companies
Preparedness and emergency response at INA Group Companies	Process Safety Management at INA Group Companies
Health Protection and Promotion in INA Group Companies	Process Safety Management Implementation System in INA Group Companies
Rules of procedures, conditions and methods of obtaining safety at work in INA, d.d.	Fire Hazard Analysis in INA Group Companies
Training program for work in safe manner in INA, d.d.	Permits to Work in INA Group Companies
Workplaces with special conditions of work and other critical operations regulation in INA, d.d.	Risk and Change Management in Health, Safety and Environment Protection in INA Group Companies
OHS training program for employer and employer authorized person in INA, d.d.	Safe operation and work practice in INA Group Companies
Rules of Procedure on Central OHS Committee in INA,d.d.	Procedure for Implementing Health, Safety and Environment Audits and Supervisions in INA Group Companies
Instruction on the safety data sheet at INA, d.d.	Regulation on conditions, priorities and method of sending INA, d.d. workers on medicine programed active vacation and health programed active vacation
Instruction on keeping the inquest register of hazardous chemicals in INA, d.d.	INA, d.d. Procedure in Case of Earthquake

Environmental data

302-1, 302-3, 303-3, 303-4, 305-1, 305-2, 305-3, 305-4, 305-7, 306-2, 306-3, 306-4

KEY ENVIRONMENTAL DATA INA GROUP	2017	2018	2019
Total Direct GHG emissions (Scope 1) (million tonnes CO_2 eq) [1]	1.83	1.83	1.51
Total Indirect GHG emissions (Scope 2) - Location based (million tonnes CO_2 eq) [2]	0.08	0.08	0.07
Total Indirect GHG (Scope 2) - Market based (million tonnes CO_2 eq) [3]	0.14	0.11	0.12
Total Indirect GHG (Scope 3) (million tonnes CO_2 eq)	N.A.	N.A.	14.18
Flaring emissions (thousand tonnes CO_2 equivalent) INA Group	112.02	151.64	87.33
Total direct energy consumption[4] (million GJ) INA Group	22.20	21.85	18.71
Total indirect energy consumption[5] (million GJ) INA Group	1.16	1.15	1.02
Energy intensity (total energy consumption (GJ) / production (t)) Rijeka Refinery	4.17	3.91	3.88
Energy intensity (total energy consumption (GJ) / production (t)) Sisak Refinery	7.29	8.03	8.26
Energy intensity (total energy consumption (GJ) / production (tOE)) Exploration and Production	1.96	2.07	2.28
Emission intensity Rijeka Refinery (t CO_2 / kt CWT)[6]	40.47	39.52	38.57
Emission intensity Sisak Refinery (t CO_2 / kt CWT)	80.44	80.42	70.80
Sulphur oxides (SOx) (thousand tonnes) INA Group	5.00	4.14	2.24
Nitrogen oxides (NOx) (thousand tonnes) INA Group	3.60	2.64	1.99
Total water withdrawal (million m^3) INA Group	34.40	36.42	23.30
Total water discharge (million m^3) INA Group	30.20	31.79	17.91
Chemical oxygen consumption (COD) (tonnes) INA Group	232.56	246.14	378.07
Biological oxygen consumption (BOD_5) (tons) INA Group	48.24	87.01	68.96
Total suspended solids (tonnes) INA Group	81.44	92.05	119.48
Total petroleum hydrocarbons (tonnes) INA Group	10.17	4.73	8.42
Total hazardous waste generated (thousand tonnes) INA Group	13.97	19.47	15.63
Total non-hazardous waste generated (thousand tonnes) INA Group	9.87	14.72	13.31
Waste exported (thousand tonnes) INA Group	2.66	4.17	584.72
Recycled waste (thousand tonnes) INA Group	6.96	12.49	13.59
Disposed waste (thousand tonnes) INA Group[7]	16.95	21.73	15.27
Spills > 1m^3 INA Group	3	3	2

[1] Calculation based on CO_2 only (i.e. CH_4, N_2O, HFCs, PFCs, SF_6, NF_3 are not included in the calculation). Calculation includes the following methods: mass balance calculations, site-specific data, such as for fuel composition analysis or based on calculation by using IPCC factors. Within INA Group there are no combustion or biodegradation of biomass so there are no biogenic CO_2 emissions.
[2] Conversion factors for electricity source – International Energy Agency "CO_2 Emissions from Fuel Combustion 2017 publication" and Defra Decc Conversion factors, Annex 3 Electricity, Heat, Steam for steam and heat conversion factors for electricity source – International Energy Agency "CO_2 Emissions from Fuel Combustion 2017 publication" and Defra Decc Conversion factors, Annex 3 Electricity, Heat, Steam for steam and heat
[3] Source for conversion factor - EU residual mix issued by AIB (for electricity) and Defra Decc Conversion factors, Annex 3 Electricity, Heat, Steam for steam and heat
[4] Total direct energy consumption = Total natural gas consumption (as energy source) + Total consumption of other HC energy sources
[5] Total indirect energy consumption = Total electricity consumption + Total consumption of other indirect sources (steam, heat ...)
[6] CWT - Complexity Weighted Tone, a benchmark for oil refineries under EU ETS, defining the basis on which free allowances are allocated to refineries between 2013 and 2020 (third trading period)
[7] Disposed waste amounts include hazardous and non-hazardous waste disposed with treatment methods with code 'D', based on the Act on Sustainable Waste Management (OG 94/13, 73/17, 14/19). Information on disposed waste was provided by waste disposal contractors.

HSE costs and investments

102-8

Increase in total INA Group HSE costs in 2019 is mainly driven by fire protection costs increase, due to higher unit prices of hired firefighting services and their quantities. Costs of soil and groundwater protection also increased and are driven by the changed scope of costs reporting, where soil remediation costs in Retail service stations´ are now included in reporting. All other cost fluctuations reflect HSE cost changes that support changes in business activities.

SEGMENT (HRK MLN)	2017	2018	2019
Health protection	3.9	4.6	4.5
Occupational safety, REACH and product safety	21.7	27.7	27.0
Fire protection	36.1	44.7	73.9
Surface waters protection	10.8	8.6	8.7
Hazardous waste treatment	11.3	13.1	9.3
Non-hazardous waste treatment	2.7	2.6	2.9
Soil and groundwater protection	11.6	12.9	17.0
Air protection	3.6	3.7	3.8
Climate change	-	-	0.1
Non-material HSE services	4.7	5.4	7.8
Fees and charges	22.4	26,1	25.7
TOTAL	**128.8**	**149.4**	**180.7**

INA Group HSE project investments in 2019 were realised in the amount of HRK 219 million. Majority of investments were related to environmental type of projects (HRK 196 million, or 78%).

The most intensive HSE investments were performed in Refining and Marketing (HRK 176 million, or 80%), out of which the most intensive in Rijeka Refinery (HRK 129 million) for modernisation projects.

Human resources data

401-1

INA GROUP HUMAN RESOURCES DATA	2017	2018	2019
No. of workers	10,884	10,849	10,579
No. of workers w. shortened working hours	47	45	98
No. of newly employed employees	771	718	957
No. of departed employees	822	1,014	1,246
No. of employees working abroad	107	219	201
% of women in total workforce	24	24	25
% of disabled people in total work force	2.5	2.3	2.5

ADDITIONAL SUSTAINABILITY DATA

102-8, 202-2

Proportion of senior management hired from the local community at significant locations of operation in 2019:

COMPANY	LOCAL/EXTERNAL
INA, d.d.	97%
CROSCO d.o.o.	100%
Rotary Zrt	100%
STSI d.o.o.	100%
INA MAZIVA d.o.o.	100%
HOSTIN, d.o.o.	100%
INA MALOPRODAJNI SERVISI d.o.o.	100%
PLAVI TIM d.o.o.	-
TOP RAČUNOVODSTVO SERVISI d.o.o.	100%
INA Adria B.V.	100%
INA Jadran d.o.o.	100%
INA Slovenija d.o.o.	100%
Holdina d.o.o.	11%
Energopetrol d.d.	20%
INA Crna Gora d.o.o.	-
INA VATROGASNI SERVISI d.o.o.	100%

ADDITIONAL SUSTAINABILITY DATA

102-8, 401-1, 401-3, 404-1

HUMAN RESOURCES DATA, INA GROUP COMPANIES IN 2019	INA, d.d.	CROSCO d.o.o.	Rotary Zrt.	STSI d.o.o.	INA MAZIVA d.o.o.	HOSTIN, d.o.o.	INA MALOPRODAJNI SERVISI d.o.o.	PLAVI TIM d.o.o.	TOP RAČUNOVODSTVO SERVISI d.o.o.	INA Adria B.V.	INA Jadran d.o.o.	INA Slovenija d.o.o.	Holdina d.o.o.	INA Crna Gora d.o.o.	Energopetrol d.d.	INA Vatrogasni servisi
No. of workers	**3,681**	**996**	**326**	**804**	**139**	**12**	**2,647**	**210**	**239**	**2**	**26**	**77**	**591**	**24**	**515**	**245**
No. of workers with shortened working hours	26	1	7	1	2	0	1	3	7	0	0	3	24	0	23	0
No. of newly employed employees	78	31	15	48	3	24	424	8	5	0	0	11	116	3	78	113
No. of departed employees	415	41	24	71	18	43	372	7	58	0	8	10	90	0	89	0
No. of employees working abroad	15	92	19	9	0	0	0	0	0	0	0	0	1	0	0	0
No. of women in total workforce	1,002	34	26	59	43	9	810	81	218	0	9	29	173	13	76	11
% of women in managerial positions	24%	18%	20%	44%	33%	100%	0%	45%	67%	0%	0%	0%	41%	0%	33%	0%
% of disabled persons in total work force	2%	2%	2%	3%	6%	0%	1%	2%	3%	0%	4%	0%	3%	0%	6%	2%
EDUCATION LEVEL																
No. of unskilled workers	12	3	0	6	0	0	2	0	0	0	0	3	0	1	4	0
No. of semi-skilled workers	8	1	0	12	0	0	2	0	0	0	0	1	1	0	0	0
No. of primary school degree workers	12	10	0	0	10	0	4	0	1	0	0	0	0	0	0	0
No. of skilled workers	119	125	141	69	4	0	77	0	1	0	0	1	178	0	224	6
No. of high school degree workers	1,828	648	28	384	64	9	2,381	80	120	0	5	58	291	6	242	210
No. of highly skilled workers	157	24	83	101	1	0	16	1	0	0	0	0	5	0	3	1
No. of assoc.degr./bacc. workers	281	29	42	77	11	2	118	27	36	0	1	5	43	2	20	14
No. of univ. degr. / mag. workers	1,087	153	32	139	40	1	44	79	70	2	20	9	70	14	21	8
No. of MA / univ. spec. workers	84	0	0	11	8	0	3	15	8	0	0	0	0	0	0	5
No. of PhD workers	93	3	0	8	1	0	1	8	3	0	1	0	3	1	1	1
AGE STRUCTURE OF WORKERS																
Under the age of 30	241	68	16	46	5	1	682	14	7	0	0	9	137	6	108	58
31-40 years	780	313	90	173	20	1	788	52	54	2	9	15	168	11	122	65
41-50 years	1,095	231	84	229	35	4	753	48	63	0	9	25	163	5	144	52
51-60 years	1,458	361	116	325	76	6	403	88	114	0	6	25	113	2	126	70
Over 61 years	107	23	20	31	3	0	22	8	1	0	3	3	10	0	15	0
EDUCATION																
Average training time per employee (hours)	25	5	N/A	17	13	N/A	15	9	10	N/A	N/A	N/A	10	N/A	7	N/A
Average cost of training per employee (HRK)	2,878	168	N/A	809	779	N/A	323	746	426	N/A	N/A	N/A	212	N/A	18	N/A
FREEDOM OF ASSOCIATION																
% of employees in trade unions	51%	77%	28%	67%	71%	42%	67%	41%	61%	0%	15%	38%	46%	83%	27%	61%
% of employees covered by the Collective Agreement	100%	100%	99%	100%	100%	100%	100%	100%	100%	0%	100%	100%	100%	0%	100%	100%
DATA RELATED TO PARENTAL LEAVE IN INA GROUP, BY GENDER																
	F/M	F/M	F/M	F/M	F/M	F/M	F/M	F/M	F/M	F/M	F/M	F/M	F/M	F/M	F/M	
Number of employees entitled to parental leave	25/64	1/23	0/0	1/16	1/1	N/A	11/33	2/3	6/2	N/A	N/A	N/A	1/0	N/A	6/0	0/12
Number of employees by gender that took parental leave	90/8	4/3	0/0	3/2	4/0	N/A	91/29	4/0	16/0	N/A	N/A	N/A	4/1	N/A	6/0	0/0
Number of employees who returned to work after their parental leave ended	32/5	0/1	0/0	2/2	1/0	N/A	27/18	0/0	0/0	N/A	N/A	N/A	2/1	N/A	2/0	0/0
Number of employees who returned to work after their parental leave ended and who are still employed twelve months after their return to work	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
The return to work and retention rates of employees who returned to work after the leave ended (%)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

** Holdina d.o.o. and Energopetrol d.d. employees work halftime for one company and other halftime for the other*

INDEPENDENT REVIEWS

OPINION OF THE COMMISSION OF THE ADMINISTRATIVE COUNCIL OF THE CROATIAN BUSINESS COUNCIL FOR SUSTAINABLE DEVELOPMENT ON THE INA GROUP SUSTAINABILITY PART OF THE ANNUAL REPORT 2019

INA Group Annual Report is the 6th consecutive integrated report that has been published as part of INA Group's commitment to stakeholders with a view of transparently publishing an integrated overview of the company's financial and material sustainability topics. The report focuses on the material economic, environmental and social impacts of INA Group's business activities and deals with operations from 1 January to 31 December 2019. In addition to meeting the legal regulations of the Republic of Croatia which set out the scope, content and deadlines of the annual report, INA Group Sustainable Development Report for 2019 also meets the Global Reporting Initiative (GRI) Standards, core option, with regard to reporting on sustainability impact, as well as the ten principles of UN Global Compact, as this document also serves as INA Group communication on progress for UNGC.

This year, INA shared the report in a slightly different manner, but continues to provide very clear and transparent business units so that each chapter is characterized by key achievements and challenges. The chapter on sustainable development has been separated into a standalone unit. Sustainability and corporate social responsibility are part of the business strategy of the company that successfully operates in an international environment. The published non-financial data are material and relevant, and a particular achievement is the fact that INA, d.d. held open consultations with key stakeholders on sustainability topics.

Sustainable development management, as a strategic and corporate responsibility, is performed at the highest level with the support of the SD Council and the SD Working Group, under the coordination of SD experts. The report thoroughly covers the topics of occupational health and safety, process safety management and fire safety in a manner that is more detailed than prescribed in the legal regulations.

Special focus is placed on climate change and the environment by reporting a number of key indicators as well as the related risk management, taking into account the aspect of the company's international business as well. INA is a member of the EU - ETS Emissions Trading System and continues to closely monitor, measure and report on its emissions. In line with our recommendation from last year, in this year's sustainability report, INA also included emissions from Scope 3 of the Greenhouse Gas Protocol arising from product consumption, which are covered by GRI 305-3 2016 in the GRI Standards.

The report also includes detailed plans for the production of fuels with less greenhouse gas emissions than the existing fossil fuels and which will play an increasing role due to the EU's tendency to make Europe the first climate-neutral continent in the world by 2050. INA also takes measures to reduce fossil fuel energy consumption and increase energy efficiency, with significant progress made by installing charging stations at retail outlets with a total of 23 stations in 17 locations. Investments are being made in the development of renewable energy sources, primarily solar energy, and the foundations of future development in the field of geothermal potential and wind have been laid.

Total SOx emissions into the air were reduced by 46% compared to last year, NOx and CO emissions by 25%, while particulate emissions remained at approximately the same level. Emission reduction was mostly driven by the comprehensive turnaround of the Rijeka Refinery, lower refining at the Sisak Refinery and the improved quality of refinery gas.

It should also be pointed out that a much better presentation of the quantities and types of waste generated and the method of recovery was made, with excellent clarification of key processes, which increases the quality of the information presented without increasing the amount of text that would burden the reader.

In the Human Resources chapter, the human resources management area in INA Group, employee relations, rewarding and operational activities of human resources, as well as talent acquisition and career development are thoroughly covered. The indicator of great care that the company exhibits toward its employees is particularly emphasized by various benefits offered, which is the key reason why INA Group has been ranked among the most desirable employers in Croatia for many years. One of the most notable benefits appreciated by the employees is the so-called FORa - flexible forms of work that ensure a better balance between private and business life. Numerous opportunities for additional education, training and development courses for managers and employees are continuously offered, thereby ensuring INA Group's development and encouraging employees to be efficient and effective. The commitment to the area of human resources is evidenced by various awards and certificates, of which the Corporate Responsibility Index (CR Index) in the category of Diversity Policy and Human Rights Protection should be particularly mentioned.

INA supports a large number of projects in local communities in the RoC through the Green Belt program, and excels in its exceptional support for vocational education through cooperation with a number of vocational schools across the RoC.

All efforts to produce a quality integrated report would not be possible without ethics and responsible business, therefore it is important to emphasize the existence of the INA Group Code of Ethics. It defines the core values and principles of behavior for management and employees with regard to their relationship to work, associates, business partners and the public, as well as the obligations of INA Group to ensure appropriate working conditions and professional development of employees and avoid unacceptable forms of behavior.

It is worth pointing out that the Report is well structured; the data and information presented are consistent, with a sufficient level of detail, all relevant information is easily found, reflects all important issues and indicates the positive and negative impacts of the company. The report has taken into account previous proposals and recommendations in order to better present a large amount of extremely complex information.

INA Group integrated report reflects the company's focus on sustainable development and a thorough understanding of the comprehensive material impacts it manages in a quality and responsible manner. It also transparently reports on omissions and areas that it will focus more on in the coming period in order to improve them. The result is therefore visible in the better overall results of the CR Index and the adopted INA Group Sustainable Development Action Plan for 2020, which is in line with the Global Sustainable Development Goals. As a possible improvement of reporting, we propose full integration of corporate governance with the sustainable development management, as well as linking responsibilities of management board members and CEOs with the implementation of the SD Strategy.

INDEPENDENT REVIEW 2

As it was the case in previous years, when reporting on its sustainability performance and corporate social responsibility activities, INA Group Annual Report for 2019 also meets the Global Reporting Initiative (GRI) standards core option, Oil & Gas Sector Supplement. It provides reporting guidance for companies and organisations primarily involved in the exploration, extraction, production, refining, and transport and sale of oil, gas, petrochemicals and specialised oil service companies. The report also offers a detailed overview of INA Group's compliance with Global Sustainable Development Goals and Global Compact principles. This report is disclosed in accordance with the Directive 2014/95/EU on disclosure of non-financial and other information by certain large undertakings and groups.

In light of the increased demand for greater accountability, stakeholder involvement and legitimacy in EU, INA Group report integrates financial and non-financial that clearly shows almost 25-yearlong tradition. This report is also clear proof that INA's management on all levels has a good understanding of how sustainability challenges are integrated into strategy by showing us what they can, want to and will do when it comes to a balance between economic, governmental, social and environmental issues. It is also evidence of vision, discipline and committed leadership.

The meaning of corporate responsibility can vary according to the context in which business operates, and is dynamic in that its purpose, application and use has changed over time. The relevant and actual information is presented in this report in a structured and consistent format making use of sections and headings so that the information is easy to locate and follow.

When comparing this year report to previous ones, I think that the most significant improvement has been made when it comes to stakeholder's involvement and management. In accordance with company's vision management understands that no stakeholder stands alone in the process of value creation. The stakes of each stakeholder are the building blocks on which everything else is built upon, and they are inherently connected. In 2019, INA decided to take another step forward regarding stakeholder management and organize a distinctive stakeholder three-step consultation on material topics. The whole process ensured complete verification of relevant material topics, laid the foundations for the preparation of a new materiality matrix and provided a quality basis for determining the aspects of the annual report and the treatment of individual areas therein.

This process shows that in INA, they are aware that in digital age only by serving all of their stakeholders, they can produce long-term results and create a sustainable business model and prosperous company. For the first time in Croatia, a company had used the form of multi-stakeholder dialogue to discuss material issues, practices and policies openly. It created not only direct routes for information flow from one stakeholder to another but also reputational value. Stakeholder engagement included 45 representatives of various external stakeholder groups in the initial materiality survey, 23 representatives of external stakeholders in the consultation (multi-stakeholder dialogue) and 97 internal stakeholders. As a result, the scope of this report and the sustainability material topics boundaries are determined by considering their relevance to business, availability of the information and operation performances, covering the sites and locations directly under operating control of INA Group companies. Living in the age of technology does not only place higher expectations on companies, but it also provides them with better tools for implementing the stakeholder approach when it comes to the building value. I hope that they intend to continue open stakeholder consultations in future as well.

When it comes to the chapter of corporate governance, it is evident that the organization is run responsibly by ensuring accountability, transparency and compliance concerning the relevant legal framework and its stakeholders. The roles and responsibilities of the supervisory board, the management board and the Council of Directors are clear and well defined, and that is especially critical since they are the final arbiters of the actions of the companies.

When it comes to sustainability a valid report presents and analyses facts and evidence that are relevant to the specific problem or issue, therefore in INA, they defined the following topics as most relevant to the reader: Health and Safety at Work, Climate Change, Environment, Human Capital, Community, Ethics and Governance. Through these six focus areas consisting of 24 programs, annual action plans are developed and monitored quarterly against targeted realization. In 2019, a total of 49 sustainable development actions were conducted at INA Group level, with the overall achievement of a staggering 99%. In addition to that, it is important to emphasize that 17 organizational units and subsidiaries have developed a total of 51 sustainable development actions that will be implemented in 2020.

As written before the company has set goals and programs in the area of sustainable development in direct correlation with the Global Sustainable Development Goals, and points out in a detailed manner the direct contribution to 13 out of 17 global Goals, with clear plans for their interpretation, realization and measurement.

INA Group is committed to responsibly act and develop goals and actions concerning the health and safety impacts, as an integrative part of all daily operations. It is always great when reality follows intention, so it is important to perceive that results of occupational health and safety performance in 2019 greatly improved when comparing them to results of 2018.

Climate change is one of the biggest challenges of our times, and it is already happening. It is also the most important strategic issue facing the oil and gas industry today and, in that manner, it is treated in this report. Management in INA is well aware of the fact that similar type of companies is facing a critical challenge as the world increasingly shifts towards clean energy transitions. Fossil fuels drive the companies' near-term returns, but failure to address growing calls to reduce greenhouse gas emissions could threaten their long-term sustainability and resilience. I think that this report is good evidence that in INA, they are posing themselves question what does a clean energy transition means to them and what they can do to accelerate that process. Due to the specific environmental impacts caused by the very nature of INA's business, several critical indicators, as well as related risk management issues are presented, considering the aspect of the company's international market as well. Management is aware that doing nothing is simply not an option and that is why energy efficiency improvement of Rijeka Refinery was made in addition to a successful implementation of pilot projects for the production of bio components and significant CO_2 emissions avoided through the EOR project where 1.5 million tons of CO_2 permanently stored in the last five years.

When it comes to environmental protection, no doubt safeguarding the environment is one of the most significant imperatives. 2019 was also marked by a significant turnaround of the Rijeka Refinery within which several investment projects for air emissions reduction and increase of energy efficiency of the refinery were completed. We know from before that INA has developed systems of various warnings and actions in case of petroleum product release, as well as soil and water protection systems and waste management system. Although it may look small thanks to "Used Cooking Oil project" and better awareness of citizens, 6.5 tons of used cooking oil was collected in 2019.

Having a sound agile strategy, having an excellent product and/or service, and having committed leadership are all critical. But it falls to the people within the organization to execute on the strategies, plans, projects and processes to make a business successful. That is why in INA they continue to invest in people. With this, I would emphasize that to ensure sustainability in human capital, performance, competencies and potential of each employee are assessed and individual development plans are created, as basics for further development of both people and business model.

Another well-structured and informative integrated report with a very detailed presentation of INA Group's financial and non-financial impact is in front of us. Usually, this type of reports conveys a favorable rather than a representative picture of the company, and I'm glad that it is not the case here. This report successfully established relationships between economic, governmental, social and environmental disclosure and actual performance. I see space for improvement in the stronger integration of corporate governance elements and sustainability model and the adequate visualization and digital presentation of this report. Nevertheless, report is written for a definite purpose and to a particular audience. Specific data, information and evidence, are designed, collected, structured, analyzed, applied and presented, to a particular problem or issue in accordance with GRI requirements.

I'm glad to conclude that this independent review will help us understand the information needs of stakeholders, and it is one of the fundamental mechanisms for driving corporate sustainable policy development and decision making. By being transparent and providing full disclosure on the issues that matter to its, stakeholders INA has added the benefit of enhancing their credibility and reputation. I hope that this positive trend will be continued in the future.

Prof. dr. sc. Mislav Ante Omazić
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University of Zagreb

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Independent Limited Assurance Report on indicators presented in the Sustainability Report of INA Group, as Part of the Annual Report for the year ended 31 December 2019.

To the Management Board of INA – INDUSTRIJA NAFTE d.d.

Avenija V. Holjevca 10
10020 Zagreb
Croatia

Scope of work performed

We have undertaken a limited assurance engagement on indicators presented in the **Sustainability Report of INA Group, as part of the Annual Report for the year from 1st January 2019 – 31st December 2019** (the "Sustainability Report"), developed by INA-INDUSTRIJA NAFTE d.d. (the "Company"), and marked with "YES" in a column "External assurance" in a table "GRI Content Index" that are material specific indicators: 302-1 Energy consumption within the organization, 303-3 Water withdrawal, 305-1 Direct greenhouse gas (GHG) Emissions (Scope 1), 305-2 Energy indirect greenhouse gas (GHG) emissions (Scope 2), 306-2 Waste by type and disposal method, 306-3 Significant spills, 403-9 Work related injuries, 403-10 Work related ill health , 404-1 Average hours of training per year per employee, and 404-3 Percentage of employees receiving regular performance and career development reviews („Selected indicators"). The indicators have been prepared on the basis of the GRI Standards for "Core" option, issued by Global Reporting Initiative (GRI).

Responsibility of the Management Board of the Company

The Management Board of the Company is responsible for the preparation and presentation of the indicators presented in the Sustainability Report in accordance with GRI Standards for "Core" option, issued by Global Reporting Initiative (GRI). This responsibility includes establishing and maintaining appropriate performance management and internal control systems from which the reported information is derived. The Management Board of the Company is also responsible for reliable, correct and fair information and for correct preparation of the documentation provided to us.

Our Independence and Quality Control

We have complied with the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which includes independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

In compliance with International Standard on Quality Control No 1, issued by International Federation of Accountants Deloitte maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our Responsibility

Our responsibility is to express a limited assurance conclusion on the ten indicators as marked in the GRI Content index presented in the Sustainability Report based on the procedures we have performed and the evidence we have obtained. We conducted our limited assurance engagement in accordance with International Standards on Assurance Engagements 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, issued by the International Auditing and Assurance Standards Board. This standard requires that we plan and perform this engagement to obtain limited assurance about whether the selected indicators presented in the Sustainability Report are free from material misstatement.

The procedures we performed were based on our professional judgment and included inquiries, observation of processes performed, inspection of documents, analytical procedures, evaluating the appropriateness of quantification methods and reporting policies, and agreeing or reconciling with underlying records. A limited assurance engagement is substantially shorter in scope than a reasonable assurance engagement in relation to both the risk assessment

procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks.

In order to form our conclusion on the selected ten indicators as marked in the GRI Content index presented in the Sustainability Report, we undertook in the period 10 January 2020 – 29 April 2020 the following procedures:

- Through inquiries, obtained an understanding of INA Group's control environment and information systems relevant to reporting the indicators under review, but did not evaluate the design of particular control activities, obtain evidence about their implementation or test their operating effectiveness.
- Obtained an understanding through inquiries, analytical procedures, observation and other applicable evidence gathering procedures on a sample basis on the key structures, systems, processes, procedures and internal controls relating to collation, aggregation, validation and reporting of data for the indicators under review.
- Evaluated whether Company's methods for developing calculations are appropriate and had been consistently applied.
- Compared the information included in the Sustainability Report to internal documentation of the Company.
- Undertook site visits to assess the completeness of the indicators under review, data collection methods, source data and relevant assumptions applicable to the indicators.

Limitations

The procedures performed in a limited assurance engagement vary in nature from, and are less in extent than for, a reasonable assurance engagement. As a result, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed a reasonable assurance engagement.

Our limited assurance engagement has been limited to the abovementioned selected ten indicators as marked in the GRI Content Index presented in the Sustainability Report and does not extend to the rest of the information included in the report nor the report as a whole. Accordingly, our conclusion below covers only these indicators and not all data presented or any other information included in the Sustainability Report.

The process the organization adopts to define, gather and report data on its non-financial performance is not subject to the formal processes adopted for financial reporting. Therefore, data of this nature is subject to variations in definitions, collection and reporting methodology with no consistent, accepted standard. This may result in non-comparable information between organizations and from year to year within the organization as methodologies develop. The accuracy and completeness of the information disclosed in the Sustainability Report are subject to inherent limitations given their nature and the methods for determining, calculating or estimating such information.

During our engagement the Company was under cyber attack. Cyber attack had certain impact on timing of our engagement procedures, however it did not impact our conclusion stated below.

Conclusion

Based on our work, we have obtained limited assurance that the information concerning the abovementioned selected ten indicators as marked in the GRI Content Index included in the Sustainability Report developed by INA-INDUSTRIJA NAFTE d.d. are not incompliant with GRI Standards for 'Core' level issued by Global Reporting Initiative and no matters have come to our attention to cause us to believe that the reviewed indicators presented in the Sustainability Report are materially misstated.

Deloitte d.o.o.
Zagreb

Date 30 April 2020

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APPENDICES

GLOSSARY OF TERMS AND ACRONYMS

TERM/ACRONYIM	DEFINITION
1P reserves	Proven reserves
2P reserves	Proven and probable reserves
bcm - mcm	Billion cubic meters – million cubic meters
bln - mln	Billion - Million
bln USD/HRK - mln USD/HRK	Billion USD/HRK - Million USD/HRK
CCS EBITDA/ CCS Profit from operations	CCS methodology eliminates from EBITDA / profit from operations inventory holding gain / loss (i.e.: reflecting actual cost of supply of crude oil and other major raw materials); impairment on inventories; furthermore adjusts EBITDA / operating profit by capturing the results of underlying hedge transactions. Clean CCS figures of the base periods were modified as well according to the improved methodology
CEE	Central and Eastern Europe
CEEMEA	Central and Eastern Europe, Middle East and Africa
CH %	Percentage change
CLP	Classification, labelling and packaging of substances and mixtures
CNB	Croatian National Bank
CSI	Croatian Standardization Institute
CSR	Corporate Social Responsibility
d.d.	PLC (Public Limited Company)
d.o.o.	LLC (Limited Liability Company)
DCU	Delayed Coker Unit
DS	Downstream/Refining and Marketing
D&I	Diversity and inclusion
Earnings per share	Earnings per Share is based on the profit attributable to ordinary shareholders using the weighted average number of shares outstanding during the year after deduction of the average number of treasury shares held over the period
EB	Employee Brand
EBITDA	Earnings before interest, tax, depreciation and amortization EBIT + Depreciation, amortization and impairment (net)
EOR	Enhanced Oil Recovery
ESP	Electrical submersible pumps
EU	European Union
EU ETS	European Union Emission Trading System
EURIBOR	Europe Interbank Offered Rate
FFO	Full Field Optimization
FMCG	Fast - moving consumer goods
GDP	Gross Domestic Product
GDR	Global depositary receipts
Gearing ratio	Net debt/Net debt + equity including non-controlling interest
GHG	Greenhouse gases

TERM/ACRONYIM	DEFINITION
GJ	Giga Joules
GRI	Global Reporting Initiative
HR	Human Resources
HSE	Health, Safety and Environment
IFRS	International Financial Reporting Standards, formerly International Accounting Standards (IAS)
IMO	International Maritime Organization
LIBOR	London Interbank Offered Rate
LTI	Lost time injury
LRP	Linear rod pump
MBA	Master of business administration
Mboe/d – boe/d	Thousand barrels of oil equivalent per day - Barrels of oil equivalent per day
MENA	Middle Easte and North Africa
MMboe – Mboe – boe - toe	Million Barrels of Oil Equivalent - Thousands of Barrels of Oil Equivalent – Barrels of Oil Equivalent - Tons of oil equivalent
Mt – kt - t	Million tons – kiloton - tone
Mtpa	Million tons per annum
NCI	Nelson Complexity Index
OHS	Occupational Health and Safety
OPEC	Organization of the Petroleum Exporting Countries
PSM	Process Safety Management
REACH	Registration, Evaluation, Authorisation and Restriction of Chemicals
Retail locations	Service stations and other retail locations (auto bar/ restaurants, carwash, shop, Heating Oil sales point, LPG sales point)
R&M	Refining and Marketing
SD	Sustainable Development
SD&HSE	Sustainable Development and Health, Safety and Environment
SDS	Safety data sheet
Simplified free cash flow	CCS EBITDA excluding special items – Capital expenditures
SRP	Sucker-rod pump
TIER	Process Safety Events (Tier 1 higher consequence, Tier 2 lower consequence)
TRIR	Total Recordable Injury Rate
USA	United States of America
UN	United Nations
UNGC	United Nations Global Compact
VAT	Value Added Tax

REPORT ON PAYMENTS TO GOVERNMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

INTRODUCTIONS

INA – INDUSTRIJA NAFTE, d.d. has prepared the present Report on Payments to Governments in accordance with the Accounting Act (Official Gazette 78/15, 134/15, 120/16, 116/18) and in compliance with Chapter 10 of DIRECTIVE 2013/34/EU (26 June 2013) on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings.

The „Reporting principles" section below contains information about the content of the Report, the types of payments included and the principles that have been applied in preparing the Report.

REPORTING PRINCIPLES

The Directive requires extractive sector companies listed on a stock exchange to publicly disclose payments made to the governments of those countries where they carry out extractive operations (including the exploration, prospection, discovery, development and extraction of minerals, oil and natural gas deposits or other materials).

Under the Accounting Act, INA, d.d. is required to prepare a consolidated report on payments made to governments for each financial year in relation to relevant activities of both INA, d.d. and any of its subsidiary undertakings included in the consolidated group accounts.

The Report also provides details on the total amount of such payments by type, specific project and government paid. In light of these requirements, INA Group has assessed its reporting obligations to be as follows:

- Where INA Group has made a payment to a government, such payment is reported in full, whether made in INA Group's sole capacity or in INA Group's capacity as the operator of a joint-arrangement.
- When a national oil company is the operator of a project to whom INA Group makes a reportable payment which is distinguishable in the cash-calls, it is included in this Report.
- Payments made by an incorporated joint arrangement where INA Group is not the operator are not included in this Report.
- For some payments it may not be possible to attribute a payment to a single project and therefore such payments may be reported at the country level. Corporate income taxes, which are typically not levied at a project level, are an example thereof.

IN-KIND PAYMENTS

Production entitlement and Royalties paid in kind owed to Governments pursuant to legal or contractual provisions (not booked in the Extractive Companies' accounts pursuant to the accounting standards) are reported in proportion to the interest held in the Project. Payments in kind are estimated at fair value which corresponds to the contractual price of oil and gas, market price (if available) or an appropriate benchmark price. These prices may be calculated on an averaged basis over a given period.

Cash basis

Payments are reported on a cash basis, meaning that they are reported in the period in which they are paid, as opposed to being reported on an accruals basis (which would mean that they were reported in the period for which the liabilities arise).

Reporting currency

All amounts presented in the Report are stated in Croatian kuna. Payments made to Governments in foreign currencies (currencies other than Croatian kuna) were translated into the equivalent Croatian kuna amount using a weighted average of the relevant exchange rates during the reporting period.

DEFINITIONS

Payment types

A single payment or multiple interconnected payments, whether in cash or in kind, made for extractive activities.

Payment types included in this Report

Production entitlement: host Government's share of production in the reporting period derived from projects operated by INA Group. This payment is generally paid in kind. The value of these payments is calculated based on the market price at the time of the in-kind payment.

Taxes: taxes and levies paid on income, production or profits, excluding taxes levied on consumption such as value added tax, excises duties, personal income taxes, sales taxes, and property and environmental taxes.

Royalties: payments for the rights to extract oil and gas resources, typically at set percentage of revenue less any deductions that may be taken.

Dividends: dividends, other than dividends paid to a government as an ordinary shareholder unless they are paid in lieu of a production entitlement or royalty.

Bonuses: bonuses paid for and in consideration of signature, discovery, production, awards, grants and transfers of extraction rights; bonuses related to achievement or failure to achieve certain production levels or targets, and the discovery of additional mineral reserves or deposits.

License and other fees: license fees, rental fees, entry fees and other considerations for licenses and/or concessions that are paid for access to the area where the extractive activities will be conducted. Administrative government fees that are not specifically related to the extractive sector, or to access to extractive resources, are excluded. Also excluded are the payments made in return for services provided by a government.

Infrastructure improvements: payments for local infrastructure development, including the improvement of infrastructure, except where the infrastructure is exclusively used for operational purposes. Payments which are of a social investment nature, for example building a school or a hospital, are excluded.

Government

Under the Regulations, a 'government' is defined as any national, regional or local authority of a country, and includes a department, agency or undertaking that is a subsidiary undertaking controlled by such an authority.

PROJECT DEFINITION

Operational activities governed by a single contract, license, lease, concession or similar legal agreement that form the basis for payment liabilities with a Government. If multiple such agreements are substantially interconnected (meaning that the agreements are governed by a single overarching agreement, that the agreements have more or less identical terms, and that the agreements are geographically and operationally interconnected), they are considered as a single Project.

SUMMARY REPORT

The table below shows the relevant payments to governments made by INA Group in the year ended 31 December 2019 shown by country and payment type.

In the summary report, all amounts are stated in million HRK.

Summary by countries:

Payments by countries	Production entitlements	Taxes	Royalties	Dividends	Signature, Discovery and Production Bonuses	License and other fees	Infrastructure improvements	TOTAL
Croatia	-	-	386	-	-	10	-	396
Angola	-	5	-	-	-	-	-	5
Egypt	16	-	-	-	-	-	-	16
TOTAL	**16**	**5**	**386**	**-**	**-**	**10**	**-**	**417**

PAYMENTS TO GOVERNMENT BY COUNTRIES

Croatia

Payments by governments	Production entitlements	Taxes	Royalties	Dividends	Signature, Discovery and Production Bonuses	License and other fees	Infrastructure improvements	TOTAL
Local municipalities	-	-	313	-	-	9	-	322
Croatian Ministry of Finance	-	-	73	-	-	-	-	73
Hydrocarbon Agency	-	-	-	-	-	1	-	1
TOTAL	**-**	**-**	**386**	**-**	**-**	**10**	**-**	**396**

Payments by projects	Production entitlements	Taxes	Royalties	Dividends	Signature, Discovery and Production Bonuses	License and other fees	Infrastructure improvements	TOTAL
Croatia onshore	-	-	313	-	-	9	-	322
Croatia offshore	-	-	73	-	-	-	-	73
Drava PSA	-	-	-	-	-	1	-	1
TOTAL	**-**	**-**	**386**	**-**	**-**	**10**	**-**	**396**

Angola

Payments by governments	Production entitlements	Taxes	Royalties	Dividends	Signature, Discovery and Production Bonuses	Licence and other fees	Infrastructure improvements	TOTAL
Angolan Tax Authority	-	5	-	-	-	-	-	5
TOTAL	**-**	**5**	**-**	**-**	**-**	**-**	**-**	**5**

Payments by projects	Production entitlements	Taxes	Royalties	Dividends	Signature, Discovery and Production Bonuses	Licence and other fees	Infrastructure improvements	TOTAL
Block 3/05	-	5	-	-	-	-	-	5
TOTAL	**-**	**5**	**-**	**-**	**-**	**-**	**-**	**5**

Egypt

Payments by governments	Production entitlements	Taxes	Royalties	Dividends	Signature, Discovery and Production Bonuses	Licence and other fees	Infrastructure improvements	TOTAL
Egyptian Government (EGPC)	16	-	-	-	-	-	-	16
TOTAL	**16**	**-**	**-**	**-**	**-**	**-**	**-**	**16**

Payments by projects	Production entitlements	Taxes	Royalties	Dividends	Signature, Discovery and Production Bonuses	Licence and other fees	Infrastructure improvements	TOTAL
Egypt operation - East Yidma	16	-	-	-	-	-	-	16
TOTAL	**16**	**-**	**-**	**-**	**-**	**-**	**-**	**16**

STATEMENT ON THE CORPORATE GOVERNANCE CODE

Management Board of INA – INDUSTRIJA NAFTE, d.d. makes the Statement on the Corporate Governance Code based on Article 22 of the Accounting Act.

Given the fact that INA's shares are listed on a regulated market, INA – Industrija nafte, d.d. applies the Corporate Governance Code effective from 1 January 2011, which was jointly prepared by the Croatian Financial Services Supervisory Agency (Hrvatska agencija za nadzor financijskih usluga) and the Zagreb Stock Exchange (Zagrebačka burza d.d. Zagreb) and is published on the Zagreb Stock Exchange website (www.zse.hr) and Croatian Financial Services Supervisory Agency website (www.hanfa.hr).

In addition to the Corporate Governance Code, INA Group also applies its own Code of Ethics, which defines the basic values and principles of conduct of INA Group management and employees regarding their attitude towards work, associates, business partners and the public. The Code also sets forth the obligations of INA Group to secure appropriate work conditions and professional development to employees and ensure avoidance of unacceptable forms of behavior. The Code covers a broad area of business relationships and processes and has to be observed by all persons acting in the name and on behalf of INA Group, including natural persons and legal entities who are in a contractual relationship with INA Group (business partners, consultants, suppliers, sellers etc.). The Code can be accessed at INA, d.d. website (www.ina.hr). INA, d.d. generally abides by the provisions of the Corporate Governance Code, with the exceptions stated in the Annual Corporate Governance Questionnaire published on INA's website.

Some of the exceptions are as follows:

INA, d.d. does not publish or update the list of shareholders. The ownership structure is available on the Company's website, whereas a detailed list of shareholders is kept by the Central Depository and Clearing Company Inc. (Središnje klirinško depozitarno društvo d.d.), which publishes a list of the ten largest shareholders on its website in accordance with the law.

INA, d.d. does not publish data on the Company's shares held by the Management Board or Supervisory Board members on its website. Instead, all announcements in reference to the new securities transactions by the Management Board or Supervisory Board members can be found on the Company's website.

INA, d.d. does not provide proxies to the Company's shareholders who are not able to vote at the General Assembly, for any reason. The shareholders who are not able to vote themselves should, at their own discretion, appoint appropriate proxies who are obliged to vote in accordance with their instructions. The Company has not received any requests from shareholders in this respect.

The Company sets the terms and formal conditions for participation of the shareholders in the General Assembly in accordance with the Companies Act and the Company's Articles of Association in order to protect the shareholders' rights in cases when there is a large number of shareholders.

The Supervisory Board is not composed of a majority of independent members. It is composed of major shareholders' representatives and a workers' representative in accordance with the Companies Act.

The long-term succession plan has not been published; however, the existing systems of electing members to the Supervisory Board, Management Board and top management take into account the continuity in performing supervisory, management and administrative functions.

The Company's remuneration policy for members of Management and Supervisory Board policy is being prepared and approved. It is expected to be presented on the 2020 Annual General Meeting.

The amounts of remunerations paid to independent auditors for rendered services are not published and constitute a business secret.

INTERNAL SUPERVISION AND RISK MANAGEMENT

The main responsibilities of the Audit Committee, as a body founded by the Supervisory Board, are assisting the Supervisory Board and supervising the implementation of its decisions related to controlling, financial reporting and audit within the Company. The Audit Committee monitors audit processes in the Company (internal and external), discusses certain topics raised by auditors or the management and advises the Supervisory Board. The Audit Committee is responsible for ensuring objectivity and credibility of information and reports that are submitted to the Supervisory Board.

The Audit Committee is in charge of and has the following responsibilities:

- Passing decisions on approval of flash reports for the stock exchange reporting purposes
- Giving recommendations to the Supervisory and Management Board on appointment or withdrawal of the appointment of the Company's external auditors responsible for annual audit of financial reports, taking into account independence, objectivity, efficiency and expenses of external auditors
- Meeting with external auditors to evaluate the scope and contents of the annual audit and appraise the results of their work
- At least once a year, a discussion of INA, d.d. – auditor relation and other services provided by the audit firm to ensure that none of the non-audit services influence the independence and objectivity of the external audit
- Discussing the results of the annual audit with external auditors, including:
    - Assessment of audited financial reports
    - Analysis of external and internal auditors' recommendations for improvement of accounting processes and internal control
    - Assessment of application of internal and external auditors' recommendations
    - Assessment of accounting processes and policies in INA, d.d. in comparison with other entities in the sector
- Approval of accounting policies and principles used by INA, d.d.
- Assessment of completeness and accuracy of data in the overall picture, presented in INA's financial statements to INA's shareholders and creditors
- Assessment of all important issues connected to legal disputes, contingencies, requests, taxes or penalties and all important accounting issues that have to be included in financial statements, in cooperation with the Management Board and external auditors
- Assessment of the scope and efficiency of the risk management system
- Assessment of the work of Internal Audit, including:
    - Competence of Internal Audit
    - Planned scope of Internal Audit, objectives, authorities and human resources necessary for achieving relevant objectives
    - Internal Audit activities in the previous period and a summary of Internal Audit report in written form
    - Cooperation of Internal Audit and the external audit
- Meeting with the director of Internal Audit upon request of the Audit Committee members or the director of Internal Audit
- Meeting with the director of Accounting and Tax upon request of the Audit Committee members or the director of Accounting and Tax
- Submitting a report about the activities and conclusions of the Audit Committee to the Supervisory Board

Internal Audit enables an independent and objective assessment of financial, operative and control activities carried out within the Group on behalf of the Management Board and reports to the management through comprehensive reports on performed audits. Internal Audit also reports on adequacy of internal controls and level of compliance with internal and external regulations. Charter of Internal Audit is a strategic document that defines the main principles and scope of work used in the Internal Audit within the Group.

The main tasks of Internal Audit include, but are not limited to:

- Testing, analysis, assessment and reporting of data in an objective and independent manner, as well as recommending preventive measures aimed at adding value and improving the company operations through application of professional audit standards and ethical standards established by the Institute of Internal Auditors (IIA)
- Check of operational and functional activities carried out in the Group and establishing, understanding, testing and assessing the existing controls with the aim to minimize identified operational risks to the most favorable cost/benefit level
- Testing and assessing adequacy and efficiency of internal control mechanisms, assessment of information technology system and related risk areas, as well as assessment of quality in performing assigned duties
- Assessment of work or program to determine whether the results are in line with the set targets and the work and programs are carried out in a planned manner
- Assessment of reliability and accuracy of financial and operative reports, as well as the manner of identifying, measuring, sorting and reporting this data
- Assessment of the system established by the management to ensure compliance with laws, regulations, procedures, policies and plans that might significantly affect the work and reporting
- Carrying out special checks or investigations as requested by the Management or Supervisory Board of the Company
- Identification of possible frauds and reporting to Corporate Security for the purpose of further investigations

Significant shareholders of the Company

As at 31 December 2019, INA's ownership structure is as follows:

- MOL Nyrt. – 49.08%
- Government of the Republic of Croatia – 44.84%
- Institutional and private investors – 6.08%

STATEMENT ON THE CORPORATE GOVERNANCE CODE

General Assembly operation

General Assembly shall be held at least once a year (ordinary meeting) and whenever a meeting is required in the interest of the Company (extraordinary meeting). The General Assembly is convened by the Management Board, and may also be convened by the Supervisory Board, as well as under conditions determined by the law, by shareholders holding shares that represent at least one twentieth part of the Company share capital. Each shareholder registered within the computer system of the Central Depository has the right to participate in the General Assembly, provided that they have sent a prior application for participation at the General Assembly meeting. A notification of their intention to participate at the General Assembly needs to be delivered to the Company within the deadline set in the invitation, six days before the General Assembly.

The President of the Supervisory Board, or any other person appointed by the Supervisory Board to chair the General Assembly, shall preside as the Chairman of the General Assembly. The General Assembly shall be entitled to pass valid resolutions if shareholders representing at least 50% of the total number of votes are present (quorum). Resolutions of the General Assembly are passed by an ordinary majority of votes, except in cases where a larger majority is required by the law or the Articles (qualified majority).

Composition and operations of management and supervisory bodies

The Company's Management Board shall consist of six members. The Management Board has a President, and it may also have a Vice President specified by the Rules of Procedure of the Management Board. The President of the Management Board may have assistants and advisers appointed by the President. The President and members of the Management Board shall be appointed and recalled by the Supervisory Board. The Supervisory Board shall decide on the term of office of the members of the Management Board, but their term of office shall not exceed five years. Once their term expires, members of the Management Board may be reappointed without limitation as to the number of terms they may serve. The Company is represented by two members of the Management Board acting jointly, or one member of the Management Board acting jointly with one procurator.

Members of the Management Board until 31 March 2020:

- 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

Members of the Management Board from 1 April 2020:

- Sándor Fasimon - President of the Management Board
- Niko Dalić - member of the Management Board
- Barbara Dorić - member of the Management Board
- Darko Markotić - member of the Management Board
- Zsolt Pethő - member of the Management Board
- Dr. Ákos Székely - member of the Management Board

The Supervisory Board consists of nine members. The term of office of the Supervisory Board members is four years. After the expiry of their term the members of the Supervisory Board may be re-elected without any restriction as to the number of terms.

The General Assembly appoints and dismisses eight members of the Supervisory Board. One member of the Supervisory Board is elected and recalled by employees pursuant to the Labor Act. The members of the Supervisory Board to be elected and dismissed by the General Assembly may resign from their position by delivering a letter of resignation to the President or Vice President of the Supervisory Board and to the Management Board of the Company. A member of the Supervisory Board elected and recalled by employees may give resignation to the Supervisory Board pursuant to provisions of the Labor Act. The Supervisory Board elects a President and Vice President of the Supervisory Board from among its members by a simple majority of votes. The President and Vice President of the Supervisory Board are elected for a term not exceeding four years and may be re-elected.

Members of the Supervisory Board from 14 June 2017 until 18 December 2020:

- Damir Vanđelić - 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

DIVERSITY STRATEGY

As a company, INA, d.d. builds a culture of diversity and acceptance of differences in line with its fundamental values and with the aim of attracting, hiring and retaining talents and its employees. In INA, d.d., under diversity management we imply introduction of diversity into the work environment in any form (gender, age, ethnicity, religion, language, sexual orientation, social background, hobbies, styles of learning, political attitudes, etc.), while under diversity acceptance we imply creation of an organizational culture where differences are respected and where everybody has the opportunity to develop their skills and talents.

The procedure of career and succession management for positions in INA, d.d. is carried out for all managerial positions and since it is an objective and unbiased system, it ensures representation of all important competencies/areas of activities aimed to achieve efficient and professional performance of successors in their future managerial roles. Currently, there is a total of 51% female successors of the total successor population, prepared to take over managerial positions. Through the use of the mentioned Procedure for Managers, and for employees of operative companies, “Employee Performance Management System in INA Group”, a system for identifying and developing talents is carried out both for managers and other employees. This is also an objective and unbiased tool to ensure gender diversity in executive, management and supervisory bodies.

Data that indicates the success of the strategy:

- Increased number of women in managerial (from 30% to 38%) and expert positions (from 38% to 45%)
- Increased number of female successors (from 42% to 51%)
- The ratio of promotions by gender is in line with the ratio of employees by gender
- The ratio of talents by gender approximates the ratio of employees by gender.

In addition to the above mentioned, in 2019 we continued with building a diversity culture through specific projects and initiatives, such as:

Mamforce certification

In 2019, INA, d.d. was certificated for the 3rd time. MAMFORCE© is an innovative method of assessment and business certification that combines corporate responsibility with the family and gender equality. The assessment method is scientifically based and developed in co-operation with the leading academic and international institutions. Through MAMFORCE, organizations gain a better insight into the effectiveness of the existing policies of family responsibilities and diversity opportunities to improve organizational culture synergy of indicators of successful business and employee welfare.

In this audit INA, d.d has reached 93%, which is the highest percentage so far. A commitment to the area of work-life balance and equal professional opportunities for women and men places INA, d.d. at the top of the best companies in Croatia, as it is 28% better than the average of comparable companies.

International Tolerance Day

This year, we celebrated the International Tolerance Day by inviting our employees to come to the job with different colorful ties and scarfs as a symbol of our differences. Also, we put a board in front of our canteen where everyone could write how they differ from others. In this way we wanted to raise awareness of how much we differ from each other, but also to show people how in differences we can find a lot of similarities between us.

Education

Within the Growww Onboarding Day we put focus on talking about generational differences. We wanted to highlight the importance of different generations that marked the company's work as well as the role of new generations in the future of business. Our aim was to introduce Growww trainees with INA’s organizational culture in which intergenerational differences are respected. Operative directors and our CEO talked in panel discussion about specifics of their generations, how they see the contribution of every other generation and how much we get as a company if we have teams that involve different generations.

INFORMATION FOR SHAREHOLDERS

Corporate address

INA - Industrija nafte, d.d.
Avenija Većeslava Holjevca 10
10 020 Zagreb
Phone: +358 1 645 0000
Web: www.ina.hr

Business Evaluation and Investor Relations

Avenija Većeslava Holjevca 10
10 020 Zagreb
Phone: +385 1 459 2718
Fax: + 385 1 645 2444
E-mail: investitori@ina.hr

Sustainable Development and Health, Safety and Environment

Avenija Većeslava Holjevca 10
10 020 Zagreb
E-mail: Odrzivi_Razvoj@ina.hr

Corporate Communications

Avenija Većeslava Holjevca 10
10 020 Zagreb
Phone: +385 1 645 0552
Fax: +385 1 645 2406
E-mail: PR@ina.hr

Central Depository and Clearing Company Inc.

Heinzelova 62a
10 000 Zagreb
Phone: +385 1 460 7300
Web: www.skdd.hr

Zagreb Stock Exchange

Ivana Lučića 2a
10 000 Zagreb
Phone: +385 1 468 6800
Web: www.zse.hr

Announcements

The company publishes its announcements on INA’s website: www.ina.hr, at Zagreb Stock Exchange’s website: http://www.zse.hr and on Croatian News Agency’s website: www.hina.hr

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FINANCIAL STATEMENTS & INDEPENDENT AUDITOR'S 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

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11 March 2020

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Independent auditor's report

To the Shareholders of INA – Industrija Nafte, d.d.

Report on the audit of the separate and consolidated financial statements

Opinion

We have audited the separate financial statements of INA – Industrija Nafte, d.d. ("the Company"), and consolidated financial statements of INA – Industrija Nafte, 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.

Key Audit Matter	How we addressed Key Audit Matter
Estimation of hydrocarbon reserves 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. 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.	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. 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. 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.
Impairments of the Company's and the Group's long lived assets 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. 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.	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.

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Key Audit Matter	How we addressed Key Audit Matter
Impairments of the Company's and the Group's long lived assets (continued) 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.	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. 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. 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.
Estimation of decommissioning provisions 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. 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.	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. 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.

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

(all amounts are presented in HRK millions)

	Note	Year ended 31 December 2019	Year ended 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.

(all amounts are presented in HRK millions)

	Note	Year ended 31 December 2019	Year ended 31 December 2018
Profit for the year		**489**	**1,177**
Other comprehensive income, net of income tax:			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit obligation	34	12	(1)
Items that may be reclassified subsequently to profit or loss:			
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.

(all amounts are presented in HRK millions)

	Note	Year ended 31 December 2019	Year ended 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.

(all amounts are presented in HRK millions)

	Note	Year ended 31 December 2019	Year ended 31 December 2018
Profit for the year		**656**	**1,334**
Other comprehensive income, net of income tax:			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of defined benefit obligation	34	12	(1)
Items that may be reclassified subsequently to profit or loss:			
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.

(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.

(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.

(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.

(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 *Financial instruments*	-	-	-	-	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 *Financial instruments*	-	-	-	-	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.

(all amounts are presented in HRK millions)

	Note	Year ended 31 December 2019	Year ended 31 December 2018
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)**

(all amounts are presented in HRK millions)

	Note	Year ended 31 December 2019	Year ended 31 December 2018
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	24	**601**	**422**
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.

(all amounts are presented in HRK millions)

	Note	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)**

(all amounts are presented in HRK millions)

	Note	Year ended 31 December 2019	Year ended 31 December 2018
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		**(364)**	**(573)**
Net increase/(decrease) in cash and cash equivalents		**164**	**(52)**
At 1 January		335	364
Effect of foreign exchange rate changes		3	23
At 31 December	24	**502**	**335**

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

(all amounts are presented in HRK millions)

1. GENERAL

History and incorporation

INA-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.

(all amounts are presented in HRK millions)

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 Vanđelić	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:

(all amounts are presented in HRK millions)

2. ACCOUNTING POLICIES (CONTINUED)

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

Standards and Interpretations effective in the current period (continued)

	INA Group	INA, d.d.
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	**156**	**384**

- **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 seperate 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 seperated 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 of 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.

(all amounts are presented in HRK millions)

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**

(all amounts are presented in HRK millions)

4. SEGMENT INFORMATION (CONTINUED)

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

31 December 2019 Assets and liabilities	Exploration and Production	Refining and Marketing	Corporate and other	Intersegment transfers and consolidation adjustments	Total
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 Assets and liabilities	Exploration and Production	Refining and Marketing	Corporate and other	Intersegment transfers and consolidation adjustments	Total
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

(all amounts are presented in HRK millions)

4. SEGMENT INFORMATION (CONTINUED)

BY GEOGRAPHICAL
INA Group

31 December 2019	Republic of Croatia	Egypt	Angola	Syria	Other countries	Total
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 Croatia	Egypt	Angola	Syria	Other countries	Total
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**

(all amounts are presented in HRK millions)

4. SEGMENT INFORMATION (CONTINUED)

INA Group

	Revenues from external customers	
	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.

	Revenues from external customers	
	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.

(all amounts are presented in HRK millions)

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**

(all amounts are presented in HRK millions)

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**

(all amounts are presented in HRK millions)

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**

(all amounts are presented in HRK millions)

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:

(all amounts are presented in HRK millions)

11. TAXATION (CONTINUED)

INA Group	Impairment of current assets	Impairment of tangible and intangible assets	Reversal of depreciation for impaired asset	Other provisions	Impairment of financial investments	Tax losses	Deferred 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**

(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).

(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.

(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**

(all amounts are presented in HRK millions)

13. INTANGIBLE ASSETS (CONTINUED)

Goodwill

Investment of Crosco, 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.

(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**

(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**

(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**

(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

(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**

(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**

(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.

(all amounts are presented in HRK millions)

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:
   - Croatia offshore - total production wells impairment amounted to HRK 280 million - NACA HRK 269 million and ALCA HRK 11 million.
   - 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.
   - 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).

(all amounts are presented in HRK millions)

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**

(all amounts are presented in HRK millions)

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 registrated INA d.d. as the only member of INA Jadran d.o.o.

At 26 September 2019 the Commercial Court registrated 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):

(all amounts are presented in HRK millions)

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

Composition of the Group

The name of subsidiary	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held by the Group	
			31 December 2019	31 December 2018
Oilfield services				
CROSCO, naftni servisi d.o.o.	Oilfield services	Croatia	100%	100%
Crosco B.V.	Oilfield services	Netherland	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%
Crosco S.A. DE C.V.	Oilfield services	Mexico	99.90%	99.90%
Oil exploration and production				
*INA Naftaplin International Exploration and Production Ltd	Oil exploration and production	Guernsey	-	100%
*INA ADRIA B.V.	Extraction of natural gas	Netherland	100%	100%
*INA Jadran d.o.o.	Extraction of natural gas	Croatia	100%	100%
Tourism				
*Hostin d.o.o.	Asset management, tourism	Croatia	100%	100%
Ancillary services				
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%	-
Production and trading				
*INA MAZIVA d.o.o.	Production and lubricants trading	Croatia	100%	100%
Trading				
*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%

(all amounts are presented in HRK millions)

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

(all amounts are presented in HRK millions)

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.

(all amounts are presented in HRK millions)

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).

(all amounts are presented in HRK millions)

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.

(all amounts are presented in HRK millions)

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 recognistion 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).

(all amounts are presented in HRK millions)

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).

(all amounts are presented in HRK millions)

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**

(all amounts are presented in HRK millions)

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.

(all amounts are presented in HRK millions)

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.

(all amounts are presented in HRK millions)

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:

Purpose of the loan	Loan currency	31 December 2019	31 December 2018
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 31 December 2019	Weighted average interest rate 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**

(all amounts are presented in HRK millions)

27. LONG-TERM LOANS (CONTINUED)

INA, d.d.	Weighted average interest rate **31 December 2019**	Weighted average interest rate **31 December 2018**	**31 December 2019**	**31 December 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	-	-

(all amounts are presented in HRK millions)

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, classifies 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**

(all amounts are presented in HRK millions)

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.

(all amounts are presented in HRK millions)

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**	**-**

(all amounts are presented in HRK millions)

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.

(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**

(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.

(all amounts are presented in HRK millions)

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.

(all amounts are presented in HRK millions)

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**

(all amounts are presented in HRK millions)

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
Actuarial (gains) or losses				
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.

(all amounts are presented in HRK millions)

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**

(all amounts are presented in HRK millions)

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 *Financial instruments*	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%.

(all amounts are presented in HRK millions)

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 Energopetrol d.d.	31 December 2018 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.

(all amounts are presented in HRK millions)

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	-

(all amounts are presented in HRK millions)

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).

(all amounts are presented in HRK millions)

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).

(all amounts are presented in HRK millions)

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.

(all amounts are presented in HRK millions)

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.

(all amounts are presented in HRK millions)

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 CO_2) are allocated to installations for free and they are used to "cover" the emissions from the previous year. If the installation has a shortage of allowances in respect to verified emissions, the rest must be bought on the market through auctioning. 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.

(all amounts are presented in HRK millions)

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.

(all amounts are presented in HRK millions)

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.

(all amounts are presented in HRK millions)

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)

(all amounts are presented in HRK millions)

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 rated 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.

(all amounts are presented in HRK millions)

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).

(all amounts are presented in HRK millions)

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.

(all amounts are presented in HRK millions)

41. ACQUISITION OF ENI CROATIA B.V.

INA Adria B.V.	Headquarters	Principal activity	Date of acquisition	Proportion of shares acquired (%)	Consideration transferred
	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	556
Gain on acquisition	(291)
Total consideration	**265**

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.

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

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To the Shareholders of INA-Industrija nafte, d.d.:

I. Independent auditor's report on the audit of consolidated and separate financial statements

We have audited the separate financial statements of INA – Industrija nafte, d.d. ("the Company"), and consolidated financial statements of INA – Industrija nafte, d.d. and it's subsidiaries (together "the Group") as at 31 December 2019 which have been issued on 11 March 2020. We issued the following audit report dated 11 March 2020 on the consolidated and separate financial statements (presented in the Annual report on pages 144 to 269):

Independent auditor's report

To the Shareholders of INA – Industrija nafte, d.d.

Report on the audit of the separate and consolidated financial statements

Opinion

We have audited the separate financial statements of INA – Industrija nafte, d.d. ("the Company"), and consolidated financial statements of INA – Industrija nafte, 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
Estimation of hydrocarbon reserves 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. 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.	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. 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. 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.
Impairments of the Company's and the Group's long lived assets 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. 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.	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.

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Key Audit Matter	How we addressed Key Audit Matter
Impairments of the Company's and the Group's long lived assets (continued) 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.	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. 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. 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.
Estimation of decommissioning provisions 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. 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.	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. 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.

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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.

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.

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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

II. 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 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. Our opinion on the separate and consolidated financial statements does not cover the Other information including the Management report, Corporate Governance Statement and Report on payments to governments.

In connection with our audit of the separate and consolidated financial statements, our responsibility is to read the other information 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.

With respect to the Management report, Corporate Governance Statement and Report on payments to governments, we also performed procedures required by the Accounting Act. Those procedures include considering whether the Management report includes the disclosures required by Article 21 of the Accounting Act, whether the Corporate Governance Statement includes the information specified in Article 22 of the Accounting Act, and whether the Report on the payments to governments includes the information specified in Article 27 of the Accounting Act.

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Based on the procedures undertaken, to the extent we are able to assess it, we report that:

1. the information given in the enclosed Management report for the 2019 financial year are consistent, in all material respects, with the enclosed separate and consolidated financial statements;

2. the enclosed Management report for 2019 financial year is prepared in accordance with requirements of Article 21 of the Accounting Act;

3. Corporate Governance Statement, included in the Company's and the Group's annual report, includes the information referred to in Article 22, paragraph 1, items 2, 5, 6 and 7 of the Accounting Act;

4. elements of Corporate Governance Statement containing the information referred to in Article 22, paragraph 1, items 3 and 4 of the Accounting Act, included in the Company's and the Group's annual report for the year 2019 are prepared in accordance with requirements of the Accounting Act and are consistent, in all material respects, with the enclosed separate and consolidated financial statements; and

5. Report on payments to governments, included in the Company's and Group's annual report, includes the information referred to in Article 27, paragraph 4, items 1, 2 and 3 and paragraph 5 of the Accounting Act.

In addition, in the light of the knowledge and understanding of the Company and Group and its environment obtained in the course of the audit, we are also required to report if we have identified material misstatements in the Management report, Corporate Governance Statement, Report on payments to governments and Annual report. We have nothing to report in this respect.

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Berislav Horvat, President of the Management Board and certified auditor

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30 April 2020