



**Consolidated and Unconsolidated
Financial statements of the JANAF GROUP and of JANAF D.D.
For the year ended
31 December 2012
Together with Independent Auditor's Report**

Zagreb, March 2013

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Responsibility for the consolidated and unconsolidated financial statements

Pursuant to the Accounting Act of the Republic of Croatia, the Managing Board is responsible for ensuring that financial statements are prepared for each financial year in accordance with International Financial Reporting Standards ("the IFRSs"), as published by the International Accounting Standards Board, which give a true and fair view of the financial position and results of operations of Jadranski naftovod (JANAF D.D. or the Company) and the JANAF GROUP, comprising JANAF D.D. and its subsidiaries (jointly referred to as "the Group") for that year.

After making enquiries, the Managing 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 Managing Board continues to adopt the going concern basis in preparing the financial statements.

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

- suitable accounting policies are selected and then applied consistently;
- judgments and estimates are reasonable and prudent;
- the applicable accounting standards are followed, subject to any material departures disclosed and explained in the consolidated and unconsolidated financial statements; and
- the consolidated and unconsolidated financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

The Managing 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 consolidated and unconsolidated comply with the Croatian Accounting Act. The Managing Board is also responsible for safeguarding the assets of the Company and the Group, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed for and on behalf of the Company and the Group:

Dr.sc. Dragan Kovačević, President of the Managing Board

Jakša Marasović, Member of the Managing Board

Bruno Šarić, Member of the Managing Board



Jadranski naftovod d.d.

Miramarska cesta 24

10000 Zagreb

Republic of Croatia

5 March 2013

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Jadranski naftovod d.d., Zagreb

We have audited the accompanying consolidated and unconsolidated financial statements of Jadranski naftovod d.d. (hereinafter: "the Company") and its subsidiaries (hereinafter jointly referred to as "the Group"), which comprise the consolidated and unconsolidated statements of financial position at 31 December 2012, the consolidated and unconsolidated statements of comprehensive income, the consolidated and unconsolidated statements of changes in shareholders' equity and the consolidated and unconsolidated statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated and unconsolidated financial statements

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and unconsolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated and unconsolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal controls relevant to the preparation and fair presentation of the consolidated and unconsolidated financial statements of the Company and the Group, respectively, 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 internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated and unconsolidated financial statements.

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

Društvo upisano u sudski registar Trgovačkog suda u Zagrebu: MBS 030022053; uplaćen temeljni kapital: 44.900,00 kuna; članovi uprave: Eric Daniel Olcott and Branislav Vrtačnik; poslovna banka: Zagrebačka banka d.d., Paromlinska 2, 10 000 Zagreb, ž. račun/bank account no. 2360000-1101896313; SWIFT Code: ZABHR2X IBAN: HR27 2360 0001 1018 9631 3; Privredna banka Zagreb d.d., Račkoga 6, 10 000 Zagreb, ž. račun/bank account no. 2340009-1110098294; SWIFT Code: PBZGHR2X IBAN: HR38 2340 0091 1100 9829 4; Raiffeisenbank Austria d.d., Petrinjska 59, 10 000 Zagreb, ž. račun/bank account no. 2484008-1100240905; SWIFT Code: RZBHHR2X IBAN: HR10 2484 0081 1002 4090 5

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INDEPENDENT AUDITOR'S REPORT (CONTINUED)

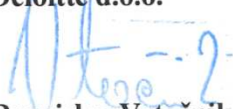
Opinion

In our opinion, the unconsolidated and consolidated financial statements present fairly, in all material respects, the respective financial positions of the Company and the Group at 31 December 2012, and the results of their operations and their cash flows for the year then ended in accordance with the International Financial Reporting Standards.

Report on other Legal and Regulatory framework

Pursuant to the Regulation on the Structure and Content of Annual Financial Statements of 28 March 2008 (Official Gazette No. 38/08), the Managing Board of the Company has prepared its annual financial statements in the prescribed format, set out on pages 56 to 65 (for the purpose of the public disclosure referred to as "The Statutory Annual Financial Statements"), which consist of the balance sheet as at 31 December 2012 and the statements of income and of cash flows for the year 2012. These Annual Statutory Financial Statements are the responsibility of the Company's Management. The financial information contained in the Annual Statutory Financial Statements has been derived from the unconsolidated financial statements of the Company, set out on page 4 to 55, on which we expressed an unqualified opinion.

Deloitte d.o.o.



Branislav Vrtačnik, Member of the Board, Certified Auditor

Zagreb, Republic of Croatia

5 March 2013

Consolidated Statement of Comprehensive Income of the JANAF GROUP

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

	Notes	2012	2011
Sales	3	401,059	411,217
Other operating income	4	55,128	8,862
Operating income		456,187	420,079
Cost of material	5	(55,069)	(53,276)
Staff costs	6	(75,464)	(74,189)
Depreciation and amortisation	7,11,12	(173,539)	(165,864)
Other operating expenses	8	(72,857)	(64,280)
Operating expenses		(376,929)	(357,609)
Profit from operations		79,258	62,470
Financial income		31,362	24,852
Finance costs		(8,773)	(11,607)
Net financial income	9	22,589	13,245
Total income		487,549	444,931
Total expenses		(385,702)	(369,216)
Profit for the year		101,847	75,715
Income tax expense	10	(6,968)	(14,304)
Profit after tax		94,879	61,411
Other comprehensive income		-	-
Total comprehensive income		94,879	61,411
Earnings per share (in HRK)	20	94.16	63.82

The accompanying notes form an integral part of these consolidated financial statements.

Statement of Comprehensive Income of JANAF D. D.

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

	Notes	2012	2011
Sales	3	401,059	411,217
Other operating income	4	55,169	8,898
Operating income		456,228	420,115
Cost of material	5	(54,991)	(53,220)
Staff costs	6	(74,922)	(73,654)
Depreciation and amortisation	7,11,12	(173,539)	(165,864)
Other operating expenses	8	(72,853)	(65,021)
Operating expenses		(376,305)	(357,759)
Profit from operations		79,923	62,356
Financial income		31,397	24,873
Finance costs		(8,772)	(11,607)
Net financial income	9	22,625	13,266
Total income		487,625	444,988
Total expenses		(385,077)	(369,366)
Profit for the year		102,548	75,622
Income tax expense	10	(6,700)	(14,285)
Profit after tax		95,848	61,337
Other comprehensive income		-	-
Total comprehensive income		95,848	61,337
Earnings per share (in HRK)	20	95.12	63.75

The accompanying notes form an integral part of these unconsolidated financial statements.

Consolidated Statement of Financial Position of the JANAF GROUP

At 31 December 2012

(All amounts are expressed in thousands of kunas)

	Notes	2012	2011
NON-CURRENT ASSETS			
Intangible assets	11	82,041	85,056
Tangible assets	12	2,794,833	2,652,425
Other financial assets	13	37	37
Receivables		6,209	172
Deferred tax assets	10	10,058	8,786
		2,893,178	2,746,476
CURRENT ASSETS			
Receivables for subscribed capital unpaid			-
Inventories	14	9,396	10,307
Receivables:			
Receivables from related companies	29	12,192	12,108
Trade and other receivables	15	99,250	65,346
		111,442	77,454
Financial assets	13	509,538	388,805
Cash and cash equivalents	16	95,253	271,074
Other assets		39	53
		725,668	747,693
TOTAL ASSETS		3,618,846	3,494,169
CAPITAL AND RESERVES			
Share capital	17	2,720,677	2,720,677
Reserves	18	263,840	231,649
Retained earnings	19	214,870	185,661
Profit for the year	20	94,879	61,411
		3,294,266	3,199,398
LONG-TERM DEBT			
Provisions	21	53,038	54,575
Long-term debt	22	94,763	91,661
		147,801	146,236
CURRENT LIABILITIES			
Trade and other payables	23	142,819	138,056
Provisions	24	22,364	-
Other liabilities	25	11,596	10,479
		176,779	148,535
TOTAL EQUITY AND LIABILITIES		3,618,846	3,494,169

The accompanying notes form an integral part of these consolidated financial statements.

Statement of Financial Position of JANAF D. D.

At 31 December 2012

(All amounts are expressed in thousands of kunas)

	Notes	2012	2011
NON-CURRENT ASSETS			
Intangible assets	11	82,041	85,056
Tangible assets	12	2,796,113	2,652,425
Investments in subsidiaries	13	64	47
Other financial assets		1,007	923
Receivables	10	6,209	172
Deferred tax assets		10,058	8,786
		2,895,492	2,747,409
CURRENT ASSETS			
Inventories	14	9,396	10,307
Receivables:			
Receivables from related companies	29	12,230	12,121
Trade and other receivables	15	99,248	65,345
		111,478	77,466
Financial assets	13	509,534	388,805
Cash and cash equivalents	16	93,884	270,337
Other assets		39	53
		724,331	746,968
TOTAL ASSETS		3,619,823	3,494,377
CAPITAL AND RESERVES			
Share capital	17	2,720,677	2,720,677
Reserves	18	263,853	231,651
Retained earnings	19	215,067	185,932
Profit for the year	20	95,848	61,337
		3,295,445	3,199,597
LONG-TERM DEBT			
Provisions	21	53,038	54,575
Long-term debt	22	94,761	91,661
		147,799	146,236
CURRENT LIABILITIES			
Trade and other payables	23	142,619	138,065
Provisions	24	22,364	-
Other liabilities	25	11,596	10,479
		176,579	148,544
TOTAL EQUITY AND LIABILITIES		3,619,823	3,494,377

The accompanying notes form an integral part of these unconsolidated financial statements.

Consolidated Statement of Cash Flows of the JANAF GROUP

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

	2012	2011
Operating activities		
Profit after tax	94,879	61,411
<i>Adjusted by:</i>		
Income tax expense	6,968	14,304
Depreciation	167,120	159,662
Amortisation	6,419	6,202
Surpluses and net book value of disposed non-current assets, net	(6,808)	(1,882)
Change in provisions, net	21,001	13,103
Accrued interest on loans	4,651	4,339
Exchange differences on loans	(1,549)	4,154
Value adjustment of trade receivables	-	17,270
Operating cash flows before changes in working capital	292,681	278,563
Increase in receivables	(52,494)	(41,045)
Increase in liabilities	5,893	69,953
Decrease / (increase) in inventories	911	(2,551)
Other non-cash items	-	(2)
Cash generated from operations	246,991	304,918
Paid income tax advances	(21,841)	(29,038)
Net cash generated from operating activities	225,150	275,880
Investing activities		
Interest received	25,711	17,479
Proceeds from sale of tangible assets	182	103
Payments for purchases of tangible assets	(302,726)	(275,593)
Payments for purchases of intangible assets	(3,405)	(12,917)
Increase in deposits	(120,733)	(150,008)
Purchases of shares	-	(37)
Net cash used in investing activities	(400,971)	(420,973)
Financing activities		
Proceeds from issuance of shares	-	250,247
Dividends paid	-	(50,556)
Net cash generated from financing activities	-	199,691
Net (decrease) / increase in cash and cash equivalents	(175,821)	54,598
Cash and cash equivalents at the beginning of the year	271,074	216,476
Cash and cash equivalents at the end of year	95,253	271,074

The accompanying notes form an integral part of these consolidated financial statements.

Statement of Cash Flows of JANAF D. D.

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

	2012	2011
Operating activities		
Profit after tax	95,848	61,337
<i>Adjusted by:</i>		
Income tax expense	6,700	14,285
Depreciation	167,120	159,662
Amortisation	6,419	6,202
Surpluses and net book value of disposed non-current assets	(6,808)	(1,882)
Provisions	21,001	13,103
Accrued interest on loans	4,651	4,339
Exchange differences on loans	(1,549)	4,154
Value adjustment of trade receivables	-	17,270
Operating cash flows before changes in working capital	293,382	278,470
Increase in receivables	(52,285)	(41,073)
Increase in liabilities	5,684	70,087
Decrease / (increase) in inventories	911	(2,551)
Other non-cash items	-	(17)
Cash generated from operations	247,692	304,916
Paid income tax advances	(21,828)	(29,038)
Net cash generated from operating activities	225,864	275,878
Investing activities		
Interest received	25,725	17,500
Given loans	(84)	(486)
Proceeds from sale of tangible assets	182	103
Payments for purchases of tangible assets	(304,006)	(275,593)
Payments for purchases of intangible assets	(3,405)	(12,917)
Increase in deposits	(120,729)	(150,008)
Purchases of shares	-	(37)
Net cash used in investing activities	(402,317)	(421,438)
Financing activities		
Proceeds from issuance of shares	-	250,247
Dividends paid	-	(50,556)
Net cash generated from financing activities	-	199,691
Net (decrease) / increase in cash and cash equivalents	(176,453)	54,131
Cash and cash equivalents at the beginning of the year	270,337	216,206
Cash and cash equivalents at the end of year	93,884	270,337

The accompanying notes form an integral part of these unconsolidated financial statements.

Consolidated Statement of Changes in Equity of the JANAF GROUP

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

	Share capital	Legal reserves	Capital reserves	Profit for the year	Retained earnings	Other reserves	Total
At 1 January 2011	2,720,677	18,254	54	106,161	185,932	157,467	3,188,545
Exchange differences on translation of a foreign operation	-	-	-	-	-	(2)	(2)
Dividends paid	-	-	-	(50,556)	-	-	(50,556)
Total comprehensive income	-	-	-	61,411	-	-	61,411
Allocation of 2010 profit	-	5,321	-	(55,605)	(271)	50,555	-
At 31 December 2011	2,720,677	23,575	54	61,411	185,661	208,020	3,199,398
At 1 January 2012							
Exchange differences on translation of a foreign operation	-	-	-	-	-	(11)	(11)
Total comprehensive income	-	-	-	94,879	-	-	94,879
Allocation of 2011 profit	-	3,067	-	(61,411)	29,209	29,135	-
At 31 December 2012	2,720,677	26,642	54	94,879	214,870	237,144	3,294,266

The accompanying notes form an integral part of these consolidated financial statements.

Statement of Changes in Equity of **JANAF D. D.**

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

	Share capital	Legal reserves	Capital reserves	Profit for the year	Retained earnings	Other reserves	Total
At 1 January 2011	<u>2,720,677</u>	<u>18,254</u>	<u>54</u>	<u>106,432</u>	<u>185,932</u>	<u>157,467</u>	<u>3,188,816</u>
Dividends paid	-	-	-	(50,556)	-	-	(50,556)
Total comprehensive income	-	-	-	61,337	-	-	61,337
Allocation of 2010 profit	-	5,321	-	(55,876)	-	50,555	-
At 31 December 2011	<u>2,720,677</u>	<u>23,575</u>	<u>54</u>	<u>61,337</u>	<u>185,932</u>	<u>208,022</u>	<u>3,199,597</u>
At 1 January 2012							
Total comprehensive income	-	-	-	95,848	-	-	95,848
Allocation of 2011 profit	-	3,067	-	(61,337)	29,135	29,135	-
At 31 December 2012	<u>2,720,677</u>	<u>26,642</u>	<u>54</u>	<u>95,848</u>	<u>215,067</u>	<u>237,157</u>	<u>3,295,445</u>

The accompanying notes form an integral part of these unconsolidated financial statements.

Notes to the financial statements

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

1. GENERAL INFORMATION

History and incorporation

Jadranski naftovod dioničko društvo, Zagreb, Miramarska cesta 24, ("the Company") was established upon the transformation of the socially owned enterprise into a public limited company in 1992 and is registered at the Commercial Court in Zagreb under the registration number: 080118427.

The Group comprises Jadranski naftovod d.d. and its two fully owned subsidiaries:

Janaf - upravljanje projektima d.o.o., Zagreb, and

Janaf – Terminal Brod, Brod, Republic of Bosnia and Herzegovina.

The principal activities of the Company comprise transport and storage of oil and oil products, and those of its subsidiaries are engineering and technical advisory services.

The subsidiaries started to operate in late 2010. Irrespective of a small volume of transactions of the subsidiaries, which mainly comprise intercompany transactions, the Company prepares and presents its consolidated financial statements.

Managing Board

From 19 June 2009 until 10 February 2012 the members of the Managing Board of JANAF d.d. were as follows:

Ante Markov, President of the Managing Board

Members of the Managing Board:

Ante Dodig

Petar Grđan

Since 10 February 2012, the members of the Managing Board of JANAF d.d. have been as follows:

President of the Managing Board: Dragan Kovačević, Dr.sc.

Members of the Managing Board:

Jakša Marasović

Bruno Šarić

Notes to the financial statements (continued)

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

1. GENERAL INFORMATION (CONTINUED)

Supervisory Board

From 26 October 2011 to 30 January 2012, the members of the Supervisory Board of Janaf d.d. were as follows:

Branko Radošević, President

Milan Meden, Member

Boris Makšijan, Member

Alis Flego, Member

Krešimir Baranović, Member

Barbara Šimić, Member

From 30 January 2012 to 03 February 2012, the members of the Supervisory Board of Janaf d.d. were as follows:

Branko Radošević, President

Milan Meden, Member

Boris Makšijan, Member

Alis Flego, Member

Srećko Ferenčak, Member

Goran Kovačević, Member

From 03 February 2012 to 06 February 2012, the members of the Supervisory Board of Janaf d.d. were as follows:

Branko Radošević, President

Milan Meden, Member

Boris Makšijan, Member

Goran Kovačević, Member

Alis Flego, Member

From 06 February 2012 to 23 May 2012, the members of the Supervisory Board of Janaf d.d. were as follows:

Branko Radošević, President

Milan Meden, Member

Boris Makšijan, Member

Goran Kovačević, Member

Krešimir Komljenović, Member

Alis Flego, Member

Jadranski naftovod d.d.

Notes to the financial statements (continued)

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

1. GENERAL INFORMATION (CONTINUED)

From 23 May 2012 to 1 November 2012, the members of the Supervisory Board of Janaf d.d. were as follows:

Goran Kovačević, President

Krešimir Komljenović, Member

Alis Flego, Member

Vlado Andučić, Member

Since 2 November 2012, the members of the Supervisory Board of Janaf d.d. have been as follows:

Goran Kovačević, President

Krešimir Komljenović, Member

Tihomir Ivčević, Member

Vlado Andučić, Member

Audit Committee of the Company

From 12 July 2011 to 11 June 2012, the members of the Audit Committee of Janaf d.d. were as follows:

Milan Meden, Chairman

Alis Flego, Member

Barbara Šimić, Member

Dražen Jurković, Member

Branko Parać, Member

From 12 June 2012 until 11 July 2012, the members of the Audit Committee of Janaf d.d. were as follows:

Stjepan Tadijančević, Chairman

Alis Flego, Member

Dražen Jurković, Member

From 12 July 2012, the members of the Audit Committee of Janaf d.d. were as follows:

Stjepan Tadijančević, Chairman

Alis Flego, Member

Dražen Jurković, Member

Krešimir Komljenović, Member

Vlado Andučić, Member

Notes to the financial statements (continued)

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

1. GENERAL INFORMATION (CONTINUED)

Related parties

Related parties comprise related and affiliated companies.

The subsidiaries of Janaf d.d. are Janaf - upravljanje projektima d.o.o., Zagreb and Janaf – Terminal Brod, Brod, Republic of Bosnia and Herzegovina.

The affiliated companies include HANDA – the Croatian Compulsory Oil Stocks Agency, fully owned by the Republic of Croatia, with an equity share in the Company of 26.28 percent.

Affiliated companies comprise the following:

- Industrija nafte d.d.
- HEP d.d.
- Lučka uprava Rijeka (Rijeka Port Authority)
- Croatia Airlines d.d.
- Croatia Osiguranje d.d.
- Auto cesta Rijeka–Zagreb d.d.
- Hrvatska pošta d.d.
- Croatian Radiotelevision
- Hrvatske autoceste d.o.o.
- Hrvatske ceste d.o.o.
- Hrvatske vode
- Hrvatske šume d.o.o.
- Narodne novine d.d.
- Vjesnik d.d.

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

(all amounts are expressed in HRK)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements are prepared in accordance with the provisions of International Financial Reporting Standards (IFRS). The financial statements compiled under the Regulation on the Structure and Content of Annual Financial Statement are presented in the Annual financial statements.

The Company prepares separate financial statements to reflect the operations of the Company, as the Parent, as well as consolidated financial statements for the Group.

The Company presents the following separate and consolidated financial statements:

- Statement of comprehensive income;
- Statement of financial position;
- Statement of cash flows;
- Statement of changes in equity, and
- Notes to the financial statements

The Company and the Group do not prepare the statements by reference to operating segments because of the inability to distinguish the assets and liabilities and expenses by operating segment. The Company and the Group make the mandatory disclosure of revenue at the level of individual business segments.

In addition to the annual financial statements, the Company prepares its Annual Report.

Pursuant to International Accounting Standard 34 (IAS 34), the provisions of the Capital Market Act and the accompanying regulations, the Company presents the financial statements for quarterly and semi-annual periods.

Preparation of the Consolidated Financial Statements

The Company prepares consolidated financial statements for the Group that comprises Janaf d.d. and the following subsidiaries: Janaf upravljanje projektima d.o.o., Zagreb, and Janaf – Terminal Brod d.o.o., Brod, Republic of Bosnia and Herzegovina.

Janaf - Terminal Brod d.o.o. represents a foreign operation. Exchange differences arisen on translation of the foreign operation are included in the consolidated financial statements within other reserves in equity.

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

(all amounts are expressed in HRK)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Adoption of new and revised International Financial Reporting Standards

Standards and Interpretations effective in the current period

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

- **Amendments to IFRS 1 *First –time Adoption of IFRS*** – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after 1 July 2011),
- **Amendments to IFRS 7 *Financial Instruments - Disclosures*** –Transfer of Financial Assets (effective for annual periods beginning on or after 1 July 2011),
- **Amendments to IAS 12 *Income tax*** - Deferred tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012),

The adoption of the amended and revised Standards and Interpretations has not lead to any changes in the Company's and Group's accounting policies.

Standards and Interpretations in issue not yet adopted

At the date of authorization of these financial statements the following Standards, revisions and Interpretations were in issue but not yet effective:

- **IFRS 9 *Financial Instruments***, as amended in 2010, (effective for annual periods beginning on or after 1 January 2015),
- **IFRS 10 *Consolidated Financial Statements***, published in May 2011, supersedes the previous version of IAS 27 (2008) *Consolidated and Separate Financial Statements*, (effective for annual periods beginning on or after 1 January 2013),
- **IFRS 11 *Joint Arrangements***, published in May 2011, supersedes IAS 31 *Interests in Joint Ventures* (effective for annual periods beginning on or after 1 January 2013),
- **IFRS 12 *Disclosure of Interests in Other Entities***, published in May 2011 (effective for annual periods beginning on or after 1 January 2013),
- **IFRS 13 *Fair Value Measurement***, published in May 2011 (effective for annual periods beginning on or after 1 January 2013),

Notes to the financial statements (continued)

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Standards and Interpretations in issue not yet adopted (continued)

- **IAS 27 *Separate Financial Statements (as amended in 2011)***, consolidation requirements previously forming part of IAS 27 (2008) have been revised and are now contained in IFRS 10 *Consolidated Financial Statements*, (effective date of IAS 27 (as amended in 2011) for annual periods beginning on or after 1 January 2013),
- **IAS 28 *Investments in Associates and Joint Ventures (as amended in 2011)***. This version supersedes IAS 28 (2003) *Investments in Associates* (effective date of IAS 28 (as amended in 2011) for annual periods beginning on or after 1 January 2013).
- **Amendments to IFRS 1 *First-time Adoption of IFRS***, published in March 2012, amendments for government loan with a below market rate of interest when transitioning to IFRS, (effective for annual periods beginning on or after 1 January 2013),
- **IFRS 7 *Financial Instruments: Disclosures***, published in December 2011, amendments enhancing disclosures about offsetting of financial assets and financial liabilities (effective for annual periods beginning on or after 1 January 2013) and amendments requiring disclosures about the initial application of IFRS 9 (effective for annual periods beginning on or after 1 January 2015),
- **Amendments to IAS 1 *Presentation of Financial Statements*** - Revising the way of presenting the other comprehensive income (effective for annual periods beginning on or after 1 July 2012).
- **Amendments to IAS 19 *Employee Benefits*** - Improvements to the Accounting for Post-Employment Benefits (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IAS 32 *Financial Instruments: Presentation* and IFRS 7 *Financial Instruments: Disclosures***, published in December 2011, amendments to application guidance on the offsetting of financial assets and financial instruments (effective for annual periods beginning on or after 1 January 2014),
- **IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine***, (effective for annual periods beginning on or after 1 January 2013).

Notes to the financial statements (continued)

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Standards and Interpretations in issue not yet adopted (continued)

- ***Annual improvements 2009 – 2011 Cycle***, published in May 2012, a collection of amendments to IFRSs, in response to issues addressed during the 2009–2011 cycle. Five standards (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) are primarily affected by the amendments, with consequential amendments to numerous others (effective for annual periods beginning on or after 1 January 2013).
- ***Transition guidance***, published in June 2012, amendment to IFRS 10, IFRS 11 and IFRS 12., (effective for annual periods beginning on or after 1 January 2013)
- Amendments to investment entities for IFRS 10, IFRS 12, IAS 27 published in October 2012 (effective for annual periods beginning on or after 1 January 2014)

The Company and the Group have elected not to adopt these Standards, revisions and Interpretations in advance of their effective dates and The Company and the Group anticipate that the adoption of these standards, revisions and interpretations will have no material impact on the financial statements of the Company and the Group in the period of initial application.

Notes to the financial statements (continued)

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of presentation

These financial statements have been prepared on the historical cost basis, except for certain financial instruments measured at fair value.

Unless specified otherwise, the financial statements are presented in the Croatian currency, the Croatian kuna (HRK), which is the functional currency of the Company, rounded to the nearest thousand.

The accounting policies have been consistently applied by the Company and the Group, unless stated otherwise.

Revenue recognition

Income from the sale of services is recognized net of value added tax upon the service is completed and when the risks and rewards of the service have passed onto the buyer.

Net finance costs

Net finance cost consists of interest expense on borrowings, late-payment interest, interest income on receivables and cash balances, foreign exchange gains and losses, gains or losses on financial assets at fair value through profit and loss, gains and losses on sale of shares, and dividends.

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.

All other borrowing costs are charged to the statement of comprehensive income in the period in which they are incurred.

Foreign currencies

In the separate financial statements of the Company, as the Parent, transactions in currencies other than Croatian kuna are presented initially by translating them at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are retranslated at the rates prevailing on the balance sheet date. Exchange differences arisen on the retranslation are included in the Statement of comprehensive income.

In the consolidated financial statements, the results and financial position of each Group entity are expressed in the Croatian kuna (HRK), which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

Notes to the financial statements (continued)

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (continued)

For the purpose of the consolidated financial statements, the financial statements of the foreign operation are translated as follows:

- items of the Statement of financial position are translated to the Croatian kunas using the exchange rate prevailing at the end reporting date;
- income and expense items are translated at the average exchange rate for the period;
- exchange differences arising from the translation of the financial statements are reported within reserves.

In the preparation of the annual financial statements set out below, unrealised exchange differences are reported within deferred income and accrued expenses.

Retirement benefit costs

The Company has no defined post-retirement benefit plans for its employees or management. Accordingly, the Company has no outstanding liabilities for post employment benefits for either its present or former employees. Provisions were made to the extent of the present value of the benefits using a discount rate of 4.5 percent (2011: 9 %) and taking into account the employee turnover rate of 0.78 percent (2011: 1.06 %), determined by taking into account historical trends in the Company and the Group during past five years. The discount rate of 4.5% was determined by reference to the market yield on Government bonds.

Taxation

Individual Group members determine their income tax in accordance with the laws applicable in the jurisdictions in which they operate. The Company assesses and pays taxes in accordance with Croatian laws. Income tax expense comprises the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year, using the tax rates that have been enacted or substantively enacted at the date of the financial statements, including adjustments to the tax liability in respect of prior years. Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is the tax expected to be payable or recoverable on the differences between the carrying amount of assets and liabilities using the tax rates that have been enacted or substantively enacted at the date of the financial statements. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and recognise to the extent that future taxable profits will be sufficient to allow those temporary differences and unused tax losses to be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be utilised.

Notes to the financial statements (continued)

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related parties

Related parties comprise subsidiaries, related companies and affiliated companies.

Related companies

Related companies include entities controlled by the Republic of Croatia, or whose majority owner is the Republic of Croatia on the basis of an equity share in excess of 20 percent of the share capital and a significant influence in the Company.

Affiliated companies

Affiliated companies are those with which the Company has common management or partners but which are neither an investment nor an associated company.

Property, plant and equipment

Property, plant and equipment are recognised initially at cost, less accumulated depreciation and accumulated impairment losses. Cost includes the purchase price and directly associated cost of bringing the asset to a working condition for its intended use. Maintenance and repairs, replacements and improvements of minor importance are expensed as incurred. Significant improvements and replacement of assets are capitalised. The cost of self-constructed assets includes cost of material, direct labour costs and a proportionate share of fixed overheads. Gains or losses on the retirement or disposal of tangible fixed assets are included in the statement of comprehensive income in the period they occur.

Depreciation is recognized in Statement of the comprehensive income on a straight-line basis over the estimated useful life of each item of property, plant and equipment. Land, cushion oil and assets under construction are not depreciated.

The estimated useful lives for individual categories of the assets are as follows:

	2012	2011
Buildings	40 years	40 years
Oil pipelines and tanks	40 years	40 years
Plant and equipment	10 – 20 years	10 – 20 years
Office furniture	5 years	5 years
Telecommunication and IT equipment	5 years	5 years
Personal cars	4 years	4 years

Additional investments in tanks, pipelines and other assets are amortised over the remaining or estimated useful life of the related assets. Capitalised cost of pipeline testing using the intelligent PIG are amortised over a period of five years.

Notes to the financial statements (continued)

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets

Intangible assets with estimated useful life are carried at cost less accumulated amortisation.

Amortisation is recognized in Statement of the comprehensive income on a straight-line basis over the estimated useful life of each item of intangible assets. Assets with an indefinite useful life that are not amortise, but they are tested for impairment in accordance with IAS 36.

The useful life of individual groups of intangible assets is estimated as follows:

	2012	2011
Licences and application software	4 years	4 years
Grid connection power permit	40 years	40 years
Monitoring and control system software	15 years	15 years
Production process monitoring systems	10 years	10 years

Currently, the Company has access to maritime demesne and assets thereon based on the concession agreement concluded with the State. Properties, plant and equipment covered by the agreement are presented at cost less accumulated depreciation.

Assets under the concession agreement are depreciated using the straight-line method over the estimated useful life of an asset, taking into account the period of concession agreement.

Assets held for sale

Properties for which a plan exists as at the date of the financial statements to dispose of are disclosed as held for sale and recognised at the lower of their carrying amount or fair value less costs to sell.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises costs directly attributable to purchase of inventories and bringing them to their present condition and at present location. Cost is determined using the weighted average method.

Impairment of assets

At each date of the financial statements, the Company and the Group review 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 to determine the extent of any impairment loss. If the recoverable amount of an asset (or a cash-generated unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount.

In 2012 there were no indications of a potential impairment of tangible assets, and the management estimates that the carrying amount of those assets is lower than the recoverable amount.

Notes to the financial statements (continued)

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

In the ordinary course of operations, the Company uses primary financial instruments, such as

- investments in subsidiaries and subsidiaries
- investments in other financial instruments, which are presented on the face of the balance sheet.

Financial instruments included in assets are presented in nominal amounts, as reduced by appropriate impairment allowance, or at fair value if they relate to instruments subject to the recognition and measurement rules of IAS 39.

The Company and the Group recognise financial liabilities initially at their fair value plus transaction costs directly attributable with the acquisition or delivery of a financial liability. They are measured subsequently at amortised cost using the effective interest method.

Investments in subsidiaries

Investments in subsidiaries are carried initially at the nominal value of the investments and subsequently at cost less any impairment losses.

The Group consists of the Company and its subsidiaries. The Company prepares separate financial statements as well as consolidated financial statements for the Group.

The Company presents in its separate financial statements dividends receivable from its subsidiaries once the right to receive the dividend has been established.

Investments in other financial instruments

Investments in other financial instruments comprise financial assets and financial liabilities from the following categories:

- financial assets or financial liabilities at fair value through profit and loss, which are presented through the income statement;
- held-to-maturity investments;
- loans and receivables; and
- financial assets available for sale,

depending on the intent at the point of their acquisition.

Notes to the financial statements (continued)

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets or financial liabilities at fair value through profit and loss

Financial assets at fair value through profit and loss comprise investments in funds and deposits. The assets and liabilities are measured at fair value. Gains and losses arising on changes in the fair value are included in the net profit or loss for the period.

Available-for-sale investments

Investments available for sale comprise of equity shares of up to 20 percent of the share capital or voting power of the investee. Gains and losses arisen from changes in the fair value of available-for-sale investments are recognized directly in equity, until the security is disposed of or determined to be impaired, at which time the cumulative gain or loss previously recognized in equity is included in the net profit or loss for the period.

The fair value represents the market value on a regulated securities market, observed by reference to the official quotation of the Central Depository Agency, taking into account of the trading volume.

Unlisted equities are recognised at nominal amounts or values estimated by the management on the basis of observable public data.

The investment in Zarubezhneft Adria d.o.o. in the amount of HRK 37,200, representing 10 percent of the company's share capital, is considered as available for sale.

Loans and receivables

Loans and receivables comprise trade receivables, receivables for loans and other receivables with fixed and determinable payments that are not quoted in an active market.

Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Deposits

Deposits include cash deposits for a term of over three months and are recognized at nominal amounts.

Cash and cash equivalents

Cash and cash equivalents comprise demand deposits, balances on accounts and cash in hand, as well as term deposits with original maturities of up to three months and investments in cash funds.

Notes to the financial statements (continued)

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for impairment indicators at each date of the financial statements. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have changed.

Objective evidence of impairment for financial assets, including securities classified as available for sale (shares), may include:

- significant financial difficulty of the issuer of the financial instrument that the Company and the Group hold; or
- default or delinquency in interest or principal payments; or
- the probability of bankruptcy, financial restructuring or liquidation of the debtor/borrower.

Impairment is assessed for category of financial assets individually.

The carrying amount of the financial asset is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss, except for equity instruments available for sale, where any subsequent increase in the fair value after an impairment loss was recognized is recognized directly in equity.

Derecognition of financial assets

Financial assets are derecognised when the contractual rights to the cash flows from the asset expire; or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity.

Financial liabilities and equity instruments issued by the Company

Debt and equity instruments are classified as either financial liabilities or equity, in accordance with the substance of the contractual arrangement.

Hedge accounting

The Company and the Group do not apply any forms of hedge accounting other than natural hedge.

Provisions

Provisions are recognized in the Statement of comprehensive income and the Statement of financial position when the Company and the Group have a present legal or constructive obligation as a result of past events and where it is probable that an outflow of resources will be required to settle the obligation.

Comparatives

Where necessary, comparative information has been reclassified to conform to the current year's presentation.

Notes to the financial statements (continued)

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

3 SALES

The principal activities of the Group relate exclusively to the principal activities of JANAF d.d.

The revenue of the subsidiaries represents the results of intragroup transactions and was fully eliminated in the Group accounts. The principal activities of the Company are divided into oil transportation activities and storage of oil and refinery products.

	JANAF GROUP		JANAF D.D.	
	2012	2011	2012	2011
Oil transportation	242,194	246,137	242,194	246,137
Oil storage	112,433	114,825	112,433	114,825
Storage of refinery products	40,927	43,670	40,927	43,670
Other	5,505	6,585	5,505	6,585
	<u>401,059</u>	<u>411,217</u>	<u>401,059</u>	<u>411,217</u>

Operating income generated from the principal activities of the Company on the domestic and international markets is as follows:

	JANAF GROUP		JANAF D.D.	
	2012	2011	2012	2011
Domestic market				
Oil transportation	55,272	56,283	55,272	56,283
Oil storage	112,433	107,041	112,433	107,041
Storage of refinery products	40,927	43,670	40,927	43,670
Other	5,479	6,573	5,479	6,573
<i>Total domestic revenue</i>	<u>214,111</u>	<u>213,567</u>	<u>214,111</u>	<u>213,567</u>
Foreign market				
Oil transportation	186,922	189,854	186,922	189,854
Oil storage	-	7,784	-	7,784
Other	26	12	26	12
<i>Total foreign revenue</i>	<u>186,948</u>	<u>197,650</u>	<u>186,948</u>	<u>197,650</u>
Total	<u>401,059</u>	<u>411,217</u>	<u>401,059</u>	<u>411,217</u>

4 OTHER OPERATING INCOME

Other operating income of the Company in the amount of HRK 55.2 million for the Company and HRK 55.1 million for the Group (2011: HRK 8.9 million for the Company and the Group) comprise income from subsequent recovery of receivables provided against in 2011 which amount to HRK 17.1 million (2011: nil), income from reversal of provisions for finalised legal actions and other provisions in the amount of HRK 14.9 million (2011: HRK 213.5 million), refund of overpaid communal and monument fees for prior periods in the amount of HRK 11.5 million (2011: nil), and income from liquidated damages charged to suppliers, as well as rental income, damages receives and other similar income of the company and the Group.

Notes to the financial statements (continued)

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

5 COST OF MATERIAL

	JANAF GROUP		JANAF D.D.	
	2012	2011	2012	2011
Materials and spare parts	<u>8,951</u>	<u>6,911</u>	<u>8,950</u>	<u>6,907</u>
Other external expenses:				
Manufacturing service cost	16,330	14,218	16,258	14,218
Maintenance	13,358	16,060	13,358	16,060
Electricity	9,160	9,418	9,160	9,416
Other material costs	<u>7,270</u>	<u>6,669</u>	<u>7,265</u>	<u>6,619</u>
	<u>46,118</u>	<u>46,365</u>	<u>46,041</u>	<u>46,313</u>
	<u>55,069</u>	<u>53,276</u>	<u>54,991</u>	<u>53,220</u>

6 STAFF COSTS

	JANAF GROUP		JANAF D.D.	
	2012	2011	2012	2011
Gross salaries	69,284	67,014	67,646	66,095
Contributions on salaries	<u>10,975</u>	<u>11,506</u>	<u>10,802</u>	<u>11,367</u>
	<u>80,259</u>	<u>78,520</u>	<u>78,448</u>	<u>77,462</u>
Capitalised staff costs	<u>(4,795)</u>	<u>(4,331)</u>	<u>(3,526)</u>	<u>(3,808)</u>
Total staff costs	<u>75,464</u>	<u>74,189</u>	<u>74,922</u>	<u>73,654</u>

The gross salary cost comprises the following:

Net salaries	43,722	43,227	42,766	42,646
Taxes and contributions out of salaries	25,562	23,787	24,880	23,449

At the date of these financial statements, there were 379 persons employed by the Company (2011: 380), including those retired as of 31 December 2012 or 1 January 2013. The total number of staff employed in the Group is 387 (2011: 386 employees).

Out of the total staff costs for the Group in the amount of HRK 80.3 million (2011: HRK 78.5 million), HRK 4.8 million (2011: HRK 4.3 million) were capitalised and recognised as investments, whereas the staff costs in the Statement of comprehensive income were reduced by these amounts.

Included in the staff costs are HRK 13.7 million (2011: HRK 13.3 million) of mandatory pension contributions paid during 2012, determined as a percentage of the individual worker's gross salary.

Notes to the financial statements (continued)

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

7 DEPRECIATION AND AMORTISATION

In 2012, the depreciation/amortisation charge for the Group was equal to the charge for the Company and amounted to HRK 173.5 million (2011: HRK 165.9 million). Depreciation/amortisation is provided for each individual cost of an item of tangible and intangible assets using the straight-line method not taking account of residual values and using the rates established by the Company's and Group's accounting policy.

8 OTHER OPERATING EXPENSES

	JANAF GROUP		JANAF D.D.	
	2012	2011	2012	2011
8.1 Other expenses	36,278	31,940	36,274	32,681
8.2 Provisions	36,024	13,366	36,024	13,366
8.3 Other operating expenses	555	18,974	555	18,974
	72,857	64,280	72,853	65,021

8.1 Other expenses

	JANAF GROUP		JANAF D.D.	
	2012	2011	2012	2011
Local taxes	9,564	9,713	9,564	9,701
Business travel costs	5,471	6,200	5,471	6,133
Retirement and other employee benefits	6,497	2,656	6,497	2,656
Professional services	4,877	3,501	4,877	4,670
Insurance	2,836	2,209	2,836	2,209
Advertising and PR	1,008	1,606	1,008	1,606
Training	713	1,100	713	1,095
Fees to Supervisory Board and Audit Committee Members	515	731	491	384
Membership fees	299	399	299	399
Reserve charges	284	244	284	244
Bank charges	126	152	126	149
Other expenses	4,088	3,429	4,108	3,435
	36,278	31,940	36,274	32,681

Severance pays and other employee benefits include all the obligations of the Company under the Collective Agreement and decisions adopted.

The expenses of the Group for 2012 do not include the expenses of Janaf – upravljanje projektima d.o.o., which were capitalised at the level of Janaf d.d..

Notes to the financial statements (continued)

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

8 OTHER OPERATING EXPENSES (CONTINUED)

8.2 Provisions

	JANAF GROUP		JANAF D.D.	
	2012	2011	2012	2011
Provision for liquidated damages	22,364	-	22,364	-
Litigation provisions	6,052	9,283	6,052	9,283
Vacation accruals	3,313	3,050	3,313	3,050
Provisions for severance pays and long-service benefits	654	-	654	-
Other provisions	3,641	1,033	3,641	1,033
	36,024	13,366	36,024	13,366

The provision for liquidated damages in the amount of HRK 22.4 million (2011: nil) relates to contractually agreed liquidated damages as the obligation of the Company to construct tank capacities was not fulfilled in the contractually agreed period.

9 NET FINANCIAL INCOME

	JANAF GROUP		JANAF D.D.	
	2012	2011	2012	2011
Interest income and yield on investments	26,470	15,963	26,505	15,984
Positive foreign exchange differences	4,892	8,889	4,892	8,889
Total financial income	31,362	24,852	31,397	24,873
Interest on borrowings and late-payment interest	(4,665)	(4,339)	(4,664)	(4,339)
Negative foreign exchange differences	(4,108)	(7,268)	(4,108)	(7,268)
Total finance costs	(8,773)	(11,607)	(8,772)	(11,607)
Net financial income	22,589	13,245	22,625	13,266

The financial income and finance costs reflect transactions with unrelated companies.

Interest income of the Company and the Group, including yield on financial assets at fair value through profit and loss, covers the entire interest payable on borrowings, resulting in a net income of HRK 22.6 million (2011: HRK 13.3 million).

In 2012, the Company and the Group recognised a net foreign exchange gain in the amount of HRK 784 thousand (2011: HRK 1.6 million), resulting from both realised and unrealised exchange differences. Unrealized foreign exchange gains and losses were recorded on a net principle, that is, by netting off on the individual asset and liability items basis. Realized foreign exchange gains are presented gross.

Interest on the Central Libyan Bank amounts to HRK 4.7 million (2011: HRK 4.3 million).

Notes to the financial statements (continued)

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

10 INCOME TAX

	JANAF GROUP		JANAF D.D.	
	2012	2011	2012	2011
Income tax expense				
Current tax	8,240	19,757	7,972	19,738
Deferred tax assets	(1,272)	(5,453)	(1,272)	(5,453)
Income tax expense	6,968	14,304	6,700	14,285
Profit before tax	101,847	75,715	102,548	75,622
Income tax at the rate of 20%	20,369	15,143	20,510	15,124
Effect of permanent differences	367	41 2	365	460
Effect of non-taxable income	(69)	(137)	(68)	(137)
Effect of unused tax losses for which no deferred tax asset was recognised	140	48	-	-
Effect of income tax on intragroup transactions	268	-	-	-
The impact of reinvested profits	(14,107)	-	(14,107)	-
Effect of deferred tax assets on previously unrecognised temporary differences and tax losses	-	(1,162)	-	(1,162)
Income tax expense	6,968	14,304	6,700	14,285

The income tax has been assessed on the basis of taxable profit determined in accordance with tax regulations applicable in the jurisdictions in which the Group entities are domiciled. Income tax on profits generated in Croatia is determined, by applying the rate of 20 percent to taxable profit for the year.

In 2012 both the Company and the Group reported a net increase in tax assets by HRK 1.3 million (2011: HRK 5.5. million) in respect of interest arising from legal actions, other provisions and allowances not recognised for tax purposes and recovery of a doubtful debt from the previous year. The total deferred tax assets amount to HRK 10.1 million (2011: HRK 8.8 million).

Deferred tax assets in the amount of HRK 10,572 thousand was not recognised and it pertains to the value adjustment of the pipeline from Virje to Lendava, laid down in 2002, because the availability of those assets for utilisation is not certain.

The Group did not recognise deferred tax assets on tax losses Janaf - Terminal Brod d.o.o. brought forward from 2010 and 2011 in the amount of HRK 256 thousand and the 2012 tax loss in the amount of HRK 749 thousand because the utilisation of those losses is uncertain.

Notes to the financial statements (continued)

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

10 INCOME TAX (CONTINUED)

Movements in deferred tax assets:

	JANAF GROUP			JANAF D.D.		
	Opening balance	Credited / (Charged) to Statement of comprehensive income	Closing balance	Opening balance	Credited / (Charged) to Statement of comprehensive income	Closing balance
2012						
Provisions for late-payment interest	3,995	602	4,597	3,995	602	4,597
Provisions for long-service benefits	205	91	296	205	91	296
Impairment allowance on receivables	3,425	(3,425)	-	3,425	(3,425)	-
Other provisions	1,161	4,004	5,165	1,161	4,004	5,165
	8,786	1,272	10,058	8,786	1,272	10,058
	Opening balance	Credited / (Charged) to Statement of comprehensive income	Closing balance	Opening balance	Credited / (Charged) to Statement of comprehensive income	Closing balance
2011						
Provisions for late-payment interest	3,333	662	3,995	3,333	662	3,995
Provisions for long-service benefits	-	205	205	-	205	205
Impairment allowance on receivables	-	3,425	3,425	-	3,425	3,425
Other provisions	-	1,161	1,161	-	1,161	1,161
	3,333	5,453	8,786	3,333	5,453	8,786

Notes to the financial statements (continued)

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

11 INTANGIBLE ASSETS OF JANAF D.D. AND THE JANAF GROUP

Item description	Patents, licences and other intangible assets	Assets on maritime demesne	Intangible assets under development	Total
COST				
Balance at 1 January 2011	94,978	362,873	858	458,709
Additions	-	-	12,917	12,917
Transferred from assets under development	5,587	6,192	(11,779)	-
Balance at 1 January 2012	100,565	369,065	1,996	471,626
Additions	-	-	3,405	3,405
Transferred from assets under development	1,575	-	(1,575)	-
Disposals	(83)	-	-	(83)
Balance at 31 December 2012	102,057	369,065	3,826	474,948
ACCUMULATED AMORTISATION				
Balance at 1 January 2011	19,614	360,754	-	380,368
Charge for the year	6,060	142	-	6,202
Balance at 1 January 2012	25,674	360,896	-	386,570
Charge for the year	5,836	583	-	6,419
Disposals	(82)	-	-	(82)
At 31/12/2012	31,428	361,479	-	392,907
			-	
Carrying amount at 31 December 2012	70,629	7,586	3,826	82,041
Carrying amount at 1 January 2012	74,891	8,169	1,996	85,056

Patents, licences and other intangible assets

Patents, licences and other intangible assets consist mainly of grid connection power permit in the amount of HRK 33.3 million (2011: HRK 34.8 million), investments in monitoring and control system software (SCADA) in the amount of HRK 29.2 million (2011: HRK 30,6 million), easement in the amount of HRK 2.6 million (2011: HRK 2.5 million) and of licences and other software in the total amount of HRK 4.2 million (2011: HRK 4.3 million).

Title to Assets on Maritime Demesne

Under the existing law, assets on maritime demesne are state-owned property under the Maritime Demesne Concession Agreement concluded in 2003 between the Port Authorities of Rijeka, on behalf of the Croatian Government, and the company Jadranski naftovod d.d. The concession has been concluded for a period of 32 years, commencing on 4 July 2003. At 31 December 2012 the net book value of assets on maritime demesne amounted to HRK 7.6 million (2011: HRK 8.2 million), accounting for 2.1 percent of the total cost.

Notes to the financial statements (continued)

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

12 TANGIBLE ASSETS OF JANAF GROUP

Item description	Land	Buildings	Plant and equipment	Tools, fittings and vehicles	Prepayments for tangible assets	Tangible assets under construction	Cushion oil and other assets	Total
COST								
Balance at 1 January 2011	378,301	4,610,517	1,113,933	36,702	28,811	503,488	223,079	6,894,831
Additions	-	-	-	-	-	259,693	2,274	261,967
Transferred from assets under development	2,500	241,804	35,380	3,423	-	(283,107)	-	-
Increase in prepayments	-	-	-	-	15,901	-	-	15,901
Disposals	-	(131)	(407)	(451)	-	-	-	(989)
Assets disposed of or granted	-	-	(248)	(926)	-	-	-	(1,174)
Balance at 1 January 2012	380,801	4,852,190	1,148,658	38,748	44,712	480,074	225,353	7,170,536
Additions	-	-	-	-	-	327,368	6,828	334,196
Transferred from assets under development	3,988	8,483	14,028	3,178	-	(29,677)	-	-
Decrease in prepayments	-	-	-	-	(24,642)	-	-	(24,642)
Disposals	-	-	(106)	(726)	-	-	-	(832)
Assets disposed of or granted	-	-	(11)	(1,713)	-	-	-	(1,724)
Balance at 31 December 2012	384,789	4,860,673	1,162,569	39,487	20,070	777,765	232,181	7,477,534

Notes to the financial statements (continued)

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

12 TANGIBLE ASSETS OF JANAF GROUP (CONTINUED)

Item description	Land	Buildings	Plant and equipment	Tools, fittings and vehicles	Prepayments for tangible assets	Tangible assets under construction	Cushion oil and other assets	Total
ACCUMULATED DEPRECIATION								
Balance at 1 January 2011	-	3,584,817	752,918	22,483	-	-	-	4,360,218
Charge for the year	-	121,036	34,621	4,005	-	-	-	159,662
Disposals	-	(63)	(224)	(447)	-	-	-	(734)
Assets disposed of or granted	-	-	(109)	(926)	-	-	-	(1,035)
Balance at 1 January 2012	-	3,705,790	787,206	25,115	-	-	-	4,518,111
Charge for the year	-	127,509	35,616	3,995	-	-	-	167,120
Disposals	-	-	(100)	(723)	-	-	-	(823)
Assets disposed of or granted	-	-	(9)	(1,698)	-	-	-	(1,707)
Balance at 31 December 2012	-	3,833,299	822,713	26,689	-	-	-	4,682,701
Carrying amount At 31 December 2012	384,789	1,027,374	339,856	12,798	20,070	777,765	232,181	2,794,833
Carrying amount At 1 January 2012	380,801	1,146,400	361,452	13,633	44,712	480,074	225,353	2,652,425

Notes to the financial statements (continued)

For the year ended 31 December 2012

*(All amounts are expressed in thousands of kunas)***12 TANGIBLE ASSETS OF JANAF D.D.**

Item description	Land	Buildings	Plant and equipment	Tools, fittings and vehicles	Prepayments for tangible assets	Tangible assets under construction	Cushion oil and other assets	Total
COST								
Balance at 1 January 2011	378,301	4,610,517	1,113,933	36,702	28,811	503,488	223,079	6,894,831
								-
Additions	-	-	-	-	-	259,693	2,274	261,967
Transferred from assets under development	2,500	241,804	35,380	3,423	-	(283,107)	-	-
Increase in prepayments	-	-	-	-	15,901	-	-	15,901
Disposals	-	(131)	(407)	(451)	-	-	-	(989)
Assets disposed of or granted	-	-	(248)	(926)	-	-	-	(1,174)
								0
Balance at 1 January 2012	380,801	4,852,190	1,148,658	38,748	44,712	480,074	225,353	7,170,536
								-
Additions	-	-	-	-	-	328,648	6,828	335,476
Transferred from assets under development	3,988	8,483	14,028	3,178	-	(29,677)	-	-
Decrease in prepayments	-	-	-	-	(24,642)	-	-	(24,642)
Disposals	-	-	(106)	(726)	-	-	-	(832)
Assets disposed of or granted	-	-	(11)	(1,713)	-	-	-	(1,724)
Balance at 31 December 2012	384,789	4,860,673	1,162,569	39,487	20,070	779,045	232,181	7,478,814

Notes to the financial statements (continued)

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

12 TANGIBLE ASSETS OF JANAF D.D. (CONTINUED)

Item description	Land	Buildings	Plant and equipment	Tools, fittings and vehicles	Prepayments for tangible assets	Tangible assets under construction	Cushion oil and other assets	Total
ACCUMULATED DEPRECIATION								
Balance at 1 January 2011	-	3,584,817	752,918	22,483	-	-	-	4,360,218
Charge for the year	-	121,036	34,621	4,005	-	-	-	159,662
Disposals	-	(63)	(224)	(447)	-	-	-	(734)
Assets disposed of or granted	-	-	(109)	(926)	-	-	-	(1,035)
Balance at 1 January 2012	-	3,705,790	787,206	25,115	-	-	-	4,518,111
Charge for the year	-	127,509	35,616	3,995	-	-	-	167,120
Disposals	-	-	(100)	(723)	-	-	-	(823)
Assets disposed of or granted	-	-	(9)	(1,698)	-	-	-	(1,707)
Balance at 31 December 2012	-	3,833,299	822,713	26,689	-	-	-	4,682,701
Carrying amount At 31 December 2012	384,789	1,027,374	339,856	12,798	20,070	779,045	232,181	2,796,113
Carrying amount At 1 January 2012	380,801	1,146,400	361,452	13,633	44,712	480,074	225,353	2,652,425

Notes to the financial statements (continued)

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

12 TANGIBLE ASSETS OF JANAF D.D. AND THE JANAF GROUP (CONTINUED)

As regards the Company and the Group, additions primarily relate to the construction of new tanks, annexes and reconstruction work at the Žitnjak Terminal in Zagreb, modernisation of the fire protection and power supply system.

Fully depreciated tangible assets in the Company and the Group

Tangible fixed assets with a cost amount of HRK 1,400.3 million are still in use, although being fully depreciated as of 31 December 2012.

Commitments

At the date of the financial statements, the value of contracted and unrealized purchases of tangible fixed assets in the Company and the Group amounted to HRK 129.5 million (2011: HRK 342.3 million).

Cushion oil

Cushion oil is owned by the Company and the Group and comprises oil in pipelines and tanks to facilitate the transport of commercial oil. The value of the cushion oil in the amount of HRK 232,0 million at the date of these financial statements (2011: HRK 225.2 million) was presented at cost.

Assets under construction

Assets under construction at the Company and at the Group comprise work in progress on tanks, the reconstruction and modernisation of the Žitnjak Terminal as well as other assets with the aim to enhance the security of transloading, transport and storage of oil and refinery products and amounted to HRK 779.0 million at 31 December 2012 (2011: HRK 480.0 million).

13 FINANCIAL ASSETS

Investments in subsidiaries

In 2010 Janaf d.d. founded two subsidiaries: Janaf – upravljanje projektima d.o.o., with a share capital of HRK 20 thousand, and Janaf - Terminal Brod, Brod, Republic of Bosnia and Herzegovina, with a share capital of EUR 1,023.64.

Other financial assets of Janaf d.d. and Janaf Group

In 2011, the Company purchased a share in Zarubezhneft Adria d.o.o. for HRK 37,200, having thus acquired ten percent of the investee's share capital. The share has been recognised as a financial asset available for sale and its fair value at 31 December 2012 approximates its cost. The Company approved loan to the subsidiary Janaf-terminal Brod d.o.o. in the amount of EUR 64.0 thousand (2011: EUR 64.5 thousand), while at the end of the year 2010 the Company approved loan to the subsidiary Janaf-Upravljanje projektima d.o.o. in the amount of HRK 400 thousand which was collected during 2012.

Current financial assets of Janaf d.d. and Janaf Group

At the date of the financial statements, the balance of deposits with a term from 3 to 6 months in the Company and the Group amounted to HRK 509.5 million (2011: HRK 388.8 million).

Notes to the financial statements (continued)

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

14 INVENTORIES

The inventories of the Company and the Group comprise spare parts and materials in the total amount of HRK 9.4 million (2011: HRK 10.3 million). Inventories of spare parts and maintenance supplies are carried at cost, which is determined using the weighted average cost method.

Small inventory and tires are written off when put in use. At the date of these financial statements, the cost of those inventories in the Company and the Group amounted to HRK 2.1 million (2011: HRK 2.1 million).

15 TRADE AND OTHER RECEIVABLES

	JANAF GROUP		JANAF D.D.	
	2012	2011	2012	2011
Domestic receivables - services, unrelated companies	73,338	64,224	73,338	64,224
Impairment allowance on trade receivables	(2,700)	(19,868)	(2,700)	(19,868)
Total trade receivables	70,638	44,356	70,638	44,356
Receivables for overpaid income tax	12,211	9,300	12,211	9,300
VAT receivable	11,120	3,921	11,118	3,921
Interest receivable on term deposits	4,776	5,105	4,776	5,105
Other receivables	505	2,664	505	2,663
Total other receivables	28,612	20,990	28,610	20,989
Total trade and other receivables	99,250	65,346	99,248	65,345

At the date of the financial statements, the total net balance of trade receivables of the Company and Group amounted to HRK 70.6 million (2011: HRK 44.4 million), of which HRK 67.2 million or 95.2 % with respect to four permanent customers (2011: 87.2%). Of the total net receivables, HRK 69,0 million were not yet due.

The average credit period on sales was 25 days (2011: 21 days). A penalty interest of 15 percent, determined by law, is charged on the outstanding invoices. The contractual due dates range from 15 to 30 days.

Notes to the financial statements (continued)

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

15 TRADE AND OTHER RECEIVABLES (CONTINUED)

The Company and the Group have only few customers to whom it provides its services, mostly customers of long-standing who settle their debts regularly within the specified payment deadlines and with whom no additional security instruments are entered into. Prepayment is arranged for new or unknown customers using oil storage services.

Movement in the allowance for doubtful debts:

	JANAF GROUP		JANAF D.D.	
	2012	2011	2012	2011
Balance at 1 January	19,868	2,642	19,868	2,642
(Decrease) / increase	(17,168)	17,270	(17,168)	17,270
Write off - uncollectable	-	(44)	-	(44)
Balance at 31 December	2,700	19,868	2,700	19,868

Analysis of aging of past due trade receivables, but not impaired:

	JANAF GROUP		JANAF D.D.	
	2012	2011	2012	2011
Up to 30 days	155	2,451	155	2,451
31-60 days	30	159	30	159
61-90 days	30	78	30	78
over 91 days	1,470	6	1,470	6
	1,685	2,694	1,685	2,694

16 CASH AND CASH EQUIVALENTS

	JANAF GROUP		JANAF D.D.	
	2012	2011	2012	2011
Deposits with a term of up to 3 months	59,212	203,066	59,212	203,066
Balance on the gyro account with bank	35,820	37,282	34,480	36,550
Investments in cash funds	221	30,499	192	30,499
Cash in hand	-	227	-	222
	95,253	271,074	93,884	270,337

Notes to the financial statements (continued)

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

17 SHARE CAPITAL

At the date of these financial statements, the share capital of the Company amounted to HRK 2,720.7 million (2011: HRK 2,720.7 million).

At the date of the financial statements, authorised and issued share capital consists of 1,007,658 ordinary A and B series shares (742,846 plus 264,812, respectively), with a nominal value of HRK 2,700 each (2011: 1,007,658 ordinary shares).

The B-series shares were fully paid in in 2011 and are now equal to the A-series shares in terms of the rights. The formal conversion of the B-series shares into A-series shares pursuant to the underlying decision adopted in the General Shareholders' Meeting of 31 August 2012 is in progress.

During 2012, the market value of the shares ranged from HRK 2,054 to HRK 2,900 per share.

The structure of the share capital at the date of the financial statements was as follows:

	2012		2011	
	Number of shares	%	Number of shares	%
AUDIO/HZMO (Croatian State Pension Fund)	375,440	37.26	375,440	37.26
HANDA- Croatian Compulsory Oil Stocks Agency	264,812	26.28	264,812	26.28
INA D.D.	118,855	11.80	118,855	11.80
AUDIO/Republic of Croatia	107,465	10.66	107,465	10.66
HEP D.D.	53,981	5.36	53,981	5.36
AUDIO/State Savings Deposit Insurance and Bank Rehabilitation Agency	43,379	4.30	43,379	4.30
Other private and institutional investors	43,726	4.34	43,726	4.34
	1,007,658	100.00	1,007,658	100.00

According to the SKDD records, the change in the ownership structure under the Croatian Government Decision on the transfer of 10.66-percent share in Jadranski naftovod d.d. from AUDIO/Republic of Croatia to Retirement Fund, adopted in the 150th session held on 15 September 2012, was not yet entered at the date of the preparation of the financial statements.

Notes to the financial statements (continued)

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

18 RESERVES

	JANAF GROUP		JANAF D.D.	
	2012	2011	2012	2011
Share premium	54	54	54	54
Legal reserves	26,642	23,575	26,642	23,575
Other reserves	237,144	208,020	237,157	208,022
	<u>263,840</u>	<u>231,649</u>	<u>263,853</u>	<u>231,651</u>

Legal reserves of the Company are formed out of 5 percent of the 2002 profit, reduced by tax losses brought forward, and of profit for the years 2003 up to inclusive 2011. Other reserves of the Company were formed mainly out of prior-year profits, based on the decisions of the Company's Supervisory and Managing Boards.

Movements in 'Other reserves' are presented below:

	JANAF GROUP		JANAF D.D.	
	2012	2011	2012	2011
Balance at 1 January	208,020	157,467	208,022	157,467
Distribution of profit	29,135	50,555	29,135	50,555
Exchange differences on translation of profit	(11)	(2)	-	-
Balance at 31 December	<u>237,144</u>	<u>208,020</u>	<u>237,157</u>	<u>208,022</u>

Out of the 2011 profit HRK 29.1 million were allocated to other reserves, whereas the remaining balance of HRK 29.1 million was transferred to retained earnings.

19 RETAINED EARNINGS

At the date of these financial statements, the retained earnings of the Company amounted to HRK 215.1 million (2011: HRK 185.9 million) and of the Group amounted to HRK 214.9 million (2011: HRK 185.7 million).

Retained earnings were formed out of a portion of profits generated from 2003 up to inclusive 2011, and were allocated in accordance with the General Assembly decisions.

Notes to the financial statements (continued)

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

20 EARNINGS PER SHARE

In 2012, the Company generated profit for the year in the amount of HRK 95.8 million (2011: HRK 61.3 million). The Management Board will propose to the Supervisory Board and the Assembly to reinvest profit in the amount of HRK 70.5 million, a balance remaining after deduction for allocation of HRK 4.8 million to legal reserves, i.e. to increase the share capital by that amount, and to pay the remaining profit of HRK 20.5 million as dividends.

Earnings per share are based on the net result of the ordinary shareholder and the number of ordinary shares (742,846 A-series shares and 172,128 B-series shares relating to the additional capital contribution paid up to 1 January 2011 and 92,684 B-series shares paid on 28 June 2011), and were calculated as follows:

	JANAF GROUP		JANAF D.D.	
	2012	2011	2012	2011
Profit after taxation	94,879	61,411	95,848	61,337
Weighted average number of issued and paid-in shares	1,007,658	962,205	1,007,658	962,205
Earnings per share (basic and diluted):	94.16	63.82	95.12	63.75

21 PROVISIONS

	JANAF GROUP		JANAF D.D.	
	2012	2011	2012	2011
Legal actions	44,164	49,048	44,164	49,048
Vacation accrual and other provisions	6,776	4,084	6,776	4,084
Long-service and retirement benefits	2,098	1,443	2,098	1,443
	53,038	54,575	53,038	54,575

Provisions in the amount of HRK 44.2 million at the year-end relate to legal actions outstanding against the Company (2011: HRK 49.0 million). Specifically, they relate to a claim filed by Kutjevo d.d. to declare invalid the previous assignment agreements and the agreement from 2002, by which Kutjevo d.d. settled the disputed debt to Janaf, and to a claim with former Jugobanka d.d. on the grounds of oil spillage on agricultural land during oil transportation and to other damage, to a dispute concerning the title to land in the Veslačka street in Zagreb; and labour disputed with former and present employees. The amounts of the provisions were determined based on the ultimate outcome of the legal actions as estimated by external lawyers and the Legal Department of the Company.

Notes to the financial statements (continued)

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

21 PROVISIONS (CONTINUED)

Movements in provisions during the year were as follows:

	JANAF GROUP		JANAF D.D.	
	2012	2011	2012	2011
Balance at 1 January	54,575	41,472	54,575	41,472
Reduced during the year	(26,475)	(263)	(26,475)	(263)
New provisions made during the year	24,938	13,366	24,938	13,366
Balance at 31 December	53,038	54,575	53,038	54,575

22 LONG-TERM DEBT

	JANAF GROUP		JANAF D.D.	
	2012	2011	2012	2011
Borrowings due after one year	94,763	91,661	94,761	91,661
	94,763	91,661	94,761	91,661

At the date of these financial statements, the Company and the Group had an outstanding debt under a long-term loan of the Libyan Central Bank in the amount of HRK 94,763 thousand (2011: HRK 91,661 thousand), with the agreed fixed rate of interest of 5 percent, which the Company cannot repay, as it is a succession issue yet to be resolved between the successor states of the former Yugoslavia. The increase in the debt by HRK 3.1 million during 2012 (2011: HRK 8.5 million) comprises accrued interest in the amount of HRK 4.6 million added to the principal (2011: HRK 4.3 million) and net foreign exchange gain in the amount of HRK 1.5 million (2011: HRK 4.2 million of net foreign exchange loss).

Based on the information of the Croatian National Bank, the negotiations that started in 2005 between the successor states of the former Yugoslavia regarding the split of the total debt to the Libyan Central Bank, which includes the amount owed by the Company, were still pending at the end of 2012, due to which it was not possible to determine the timing of the settlement of the entire loan debt.

Notes to the financial statements (continued)

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

23 TRADE AND OTHER PAYABLES

	JANAF GROUP		JANAF D.D.	
	2012	2011	2012	2011
Trade payables	127,802	115,247	127,790	115,229
Amounts due to employees	5,936	3,696	5,839	3,643
Taxes, contributions and other duties payable	4,991	3,203	4,576	3,098
VAT payable on advances received	3,805	8,350	3,805	8,350
Liabilities in respect of the difference between taxes and surtaxes	-	2,854	-	2,854
Amounts owed to related companies	-	-	326	185
Other liabilities	285	4,706	283	4,706
	142,819	138,056	142,619	138,065

The average days payables outstanding in the Company and the Group were 32 (2011: 38 days). Amounts due to employees and the related taxes and contributions are due and payable within three to five working days from the expiry of the month for which wages and salaries are paid. Other liabilities are paid within the prescribed or agreed payment periods.

In 2012, the payment period for amounts owed to suppliers was 45 days (2011: 45 days).

24 SHORT-TERM PROVISIONS

Short-term provisions, which amount to HRK 22.4 million (2011: nil), relate to liquidated damages owed by the Company as the obligation of the Company to construct tank capacities was not fulfilled in the contractually agreed period.

25 OTHER CURRENT LIABILITIES OF THE COMPANY AND THE GROUP

Other current liabilities of the Company and the Group in the amount of HRK 11.6 million (2011: HRK 10.5 million) relate to accruals for completed work on tangible assets under construction not yet billed.

Notes to the financial statements (continued)

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

26 CONCESSION FEE

The Company has right to a property and equipment under the Concession Agreement described in Note 11 – Intangible assets. The Concession Agreement has been concluded for a period of 32 years. The concession fee has been agreed in US dollars and is payable as from 4 June 2003. Under IAS 39 Financial Instruments: Recognition and Measurement, all such lease liabilities should be accounted for as embedded derivatives. Given that no market values are available for future contracts denominated in USD for periods beyond six months, the Company is not able to calculate the fair value of the embedded derivative. Accordingly, the related gains and losses will be included in the statement of comprehensive income upon the payment of the concession fee.

The concession fee consists of a fixed and a variable component.

The fixed component amounts to 1,393.77 USD annually. The variable component is paid per transported tons as follows:

Transported tons	USD/ton
Up to 7,000,000	0.01
Up to 10,000,000	0.02
Over 10,000,000	0.03

27 CONTINGENT LIABILITIES

The details and estimates of maximum contingent liabilities that might have to be settled are set out below. The management has no additional information to conclude that the liabilities will have to be settled. In accordance with the legal advice, no provisions for these liabilities have been made in these financial statements. The amounts below are presented net of potential interest or other court costs because the management believes that no additional liabilities will eventuate.

Legal actions – former Yugoslavia

The Company is co-defendant (second defendant) with the Republic of Croatia (being the first defendant) in a legal action initiated by The Refinery Pančevo, Serbia, for undelivered oil. The process was discontinued because of the outbreak of war in Croatia in 1991. The claimed amount is USD 50.1 million.

The Company is defendant in a legal action filed by Naftagas promet, Novi Sad, Serbia, for the import of spare parts under a commission agreement. The process was discontinued because of the outbreak of war in Croatia in 1991. The claimed amount is USD 230.7 thousand.

In the opinion of the Managing Board, those actions will be resolved following the conclusion of succession agreements between the Croatian and Serbian governments, and no payments will be required in respect of the contingencies.

Notes to the financial statements (continued)

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

27 CONTINGENT LIABILITIES (CONTINUED)

Other contingent liabilities

The Company is a defendant in a counterclaim filed by Gradska banka d.d. in bankrupcy, Osijek, against Janaf as part of an action involving Kutjevo d.d. as plaintiff. The contingent liability in the amount of HRK 7.6 million has not been provided against based on the statement of the attorney that the counterclaim should be rejected as unfounded per Article 189 of the Civil Procedure Act.

28 EVENTS AFTER REPORTING DATE

A tender for the construction of a tank at the Žitnjak Terminal with a total volume of 100,000 m³, along with the accompanying infrastructure. The selection process is in progress.

In February 2013 an agreement was concluded with HANDA – the Croatian Compulsory Oil Stocks Agency, in connection with the construction of the tank at Žitnjak for the storage of compulsory oil and refinery product stocks.

Notes to the financial statements (continued)

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

29 RELATED-PARTY TRANSACTIONS

During the year, transactions between the Company and its related parties and between the Group and related parties are presented as follows:

	JANAF GROUP							
	Service and other sales		Purchases		Amounts owed by related parties		Amounts owed to related parties	
	2012	2011	2012	2011	2012	2011	2012	2011
Related companies	144,408	125,125	-	-	12,192	12,108	-	-
<i>HANDA</i>	144,408	125,125	-	-	12,192	12,108	-	-
Affiliated companies	75,934	72,264	16,932	17,950	27,059	11,409	1,624	2,675

Transactions of Janaf Group with affiliated companies are equal to the transactions of Janaf d.d. and affiliated companies as presented in the following table:

	Service and other sales		Purchases		Amounts owed by related parties		Amounts owed to related parties	
	2012	2011	2012	2011	2012	2011	2012	2011
Related companies	144,481	125,175	3,701	2,173	12,230	12,121	326	185
<i>HANDA</i>	144,408	125,125	-	-	12,192	12,108	-	-
<i>Janaf - Upravljanje projektima d.o.o.</i>	45	43	3,701	2,173	3	6	326	185
<i>JANAF - Terminal Brod d.o.o.</i>	28	7	-	-	35	7	-	-
Affiliated companies	75,934	72,264	16,932	17,950	27,059	11,409	1,624	2,675
INA d.d.	69,839	65,565	1,671	4,915	25,523	8,296	95	723
Lučka uprava Rijeka	6,091	6,686	307	274	1,536	3,103	52	63
HEP d.d.	4	13	13,123	13,285	-	10	1,327	1,712
Hrvatske vode	-	-	187	(2,950)	-	-	-	-
Ostali	-	-	1,644	2,426	-	-	150	177

Sale of services to, and purchases from related parties have been made under common market conditions.

Notes to the financial statements (continued)

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

29 RELATED-PARTY TRANSACTIONS (CONTINUED)

Key personnel remuneration

The remuneration paid to key personnel during the year was as follows:

	JANAF GROUP		JANAF D.D.	
	2012	2011	2012	2011
Gross salaries	5,784	4,724	5,204	4,565
Gross benefits in kind	2,180	1,073	2,148	726
	<u>7,964</u>	<u>5,797</u>	<u>7,352</u>	<u>5,291</u>

In 2012 and 2011 key personnel of the Company comprised three Managing Board members and eight directors and on the Group level the number of key personnel is five Managing Board members and eight directors in 2012, same as in 2011. In 2012 termination benefits were paid to two key management persons who left the Company.

30 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

30.1 Capital risk management

The Company and the Group manage its capital to ensure that the Company and the Group will be able to continue as a going concern. The capital structure of the Company and the Group is presented in Note 18.

Gearing ratio

The Managing Board reviews the sources of financing on a monthly basis. The sources of funding the Company's regular business and investments comprise mainly own cash funds.

The gearing ratio at the year-end can be presented as follows:

	JANAF GROUP		JANAF D.D.	
	2012	2011	2012	2011
Debt (i)	94,763	91,661	94,761	91,661
Cash and cash equivalents	95,253	271,074	93,884	270,337
Net debt	-	-	877	-
Equity (ii)	3,294,266	3,199,398	3,295,445	3,199,597
Net debt-to-equity ratio	-	-	-	-

- (i) Debt comprises only the long-term loan debt to the Libyan Central Bank. The Company and the Group have no current borrowings.
- (ii) Cash and cash equivalents comprise only cash on bank accounts and term deposits with maturities of up to 3 months.
- (iii) Equity includes share capital, reserves, retained earnings and profit for the year.

Notes to the financial statements (continued)

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

30 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

30.2. Categories of financial instruments

	JANAF GROUP		JANAF D.D.	
	2012	2011	2012	2011
Financial assets:				
Cash (excluding financial assets at FVTPL)	95,253	240,575	93,884	239,838
Deposits with a term of over three months	509,538	388,805	509,534	388,805
Loans and receivables	94,320	64,216	95,328	65,111
Financial assets at fair value through profit and loss (cash fund)	-	30,499	-	30,499
Assets available for sale	37	37	37	37
Total financial assets	699,148	724,132	698,783	724,290
Financial liabilities:				
Borrowings	94,763	91,661	94,761	91,661
Trade and other payables	137,828	138,781	138,043	138,948
Total financial liabilities	232,591	230,442	232,804	230,609

30.3 Risk exposures

The Company and the Group are exposed to credit and foreign exchange risks in the course of their ordinary business. There is no interest rate risk.

Credit risk

At the date of the financial statements, there were no significant credit risk concentrations at either the Company or the Group.

Interest rate risk management

The remaining debt is a loan with a fixed interest rate of 5 percent p.a., and the Managing Board of the Company considers that there is no exposure to interest rate risk.

Foreign exchange risk

The Company and the Group are mainly exposed to fluctuations in the exchange rates of the euro (EUR) and US dollar (USD) because a significant portion of its trade receivables and sales, cash and long-term borrowings are denominated in those currencies. Other assets and other liabilities are mainly denominated in the Croatian kuna. Foreign exchange risk is managed using natural hedge, by maintaining a required level of cash in US dollars, in which the outstanding long-term debt of the Company and the Group is denominated.

Notes to the financial statements (continued)

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Foreign exchange risk management

Set out below is an overview of the Company's and Group's cash and liabilities at 31 December denominated in foreign currencies, expressed in thousands of Croatian kunas:

	Assets		Liabilities	
	2012	2011	2012	2011
USD	81,189	96,797	94,761	91,661
EUR	38,309	5,646	-	-

The Company and the Group have assets and liabilities denominated in US dollars, so that it uses the so-called natural hedging; hence, it was not exposed to the risk of fluctuations in foreign exchange rates at the date of these financial statements.

Foreign currency sensitivity analysis

The Company and the Group are exposed mainly to the risk of fluctuation in the exchange rate against the US dollar (USD). The following table details the Company's and Group's sensitivity to a 10% increase and decrease in the exchange rate of the Croatian kuna against the US dollar. The sensitivity analysis includes outstanding monetary items and long-term debt denominated in US dollar at 31 December and adjusts their translation at the period end for the 10% change in the foreign exchange rate. The amounts were calculated in thousands of US dollars and Croatian kunas.

JANAF D:D: and JANAF GROUP								
Analysis for a 10 % decrease in the exchange rate								
	At 31/12/2012		Exchange rate	Effect	At 31/12/2011		Exchange rate	Effect
	USD	HRK	>10%		USD	HRK	>10%	
Assets	14,177	81,189	89,308	8,119	16,632	96,797	106,477	9,680
Liabilities	16,547	94,761	104,237	(9,476)	15,750	91,661	100,827	(9,166)
Net effect				(1,357)				514
Analysis for a 10 % increase in the exchange rate								
	At 31/12/2012		Exchange rate	Effect	At 31/12/2011		Exchange rate	Effect
	USD	HRK	>10%		USD	HRK	>10%	
Assets	14,177	81,189	73,070	(8,119)	16,632	96,797	87,118	(9,679)
Liabilities	16,547	94,761	85,285	9,476	15,750	91,661	82,496	9,165
Net effect				1,357				(514)

The foreign currency sensitivity analysis does not reveal any material amounts.

Notes to the financial statements (continued)

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

30. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk

Responsibility for liquidity risk management rests with the board of directors, which has established an appropriate liquidity risk management framework for the management of the short-, medium- and long-term funding and liquidity management requirements. The Company and the Group manage liquidity risk by maintaining adequate reserve of financial assets, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

Liquidity risk tables

The following tables detail the Company's and Group's remaining contractual maturity for its financial liabilities presented in the statement of financial position at the end of the reporting period. The tables have been drawn up based on the undiscounted cash outflows of financial liabilities based on the maturity date. The tables include both interest and principal cash flows.

JANAF GROUP

	Weighted average effective interest rate %	Up to 1 month	1 to 3 months	3 months to 1 year	1-5 years	5+ years	Total
2012							
Non-interest bearing	-	-	137,828	-	-	-	137,828
Interest bearing	5%	-	-	-	94,763	-	94,763
		-	137,828	-	94,763	-	232,591
2011							
Non-interest bearing	-	-	138,056	-	-	-	138,056
Interest bearing	5%	-	-	-	91,661	-	91,661
		-	138,056	-	91,661	-	229,717

JANAF D.D.

	Weighted average effective interest rate %	Up to 1 month	1 to 3 months	3 months to 1 year	1-5 years	5+ years	Total
2012							
Non-interest bearing	-	-	138,043	-	-	-	138,043
Interest bearing	5%	-	-	-	94,761	-	94,761
		-	138,043	-	94,761	-	232,804
2011							
Non-interest bearing	-	-	138,056	-	-	-	138,056
Interest bearing	5%	-	-	-	91,661	-	91,661
		-	138,056	-	91,661	-	229,717

Notes to the financial statements (continued)

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

30. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk (continued)

Liquidity risk tables

The following tables detail the Company's and Group's remaining contractual maturity for its financial assets presented in the statement of financial position at the end of the reporting period. The tables have been drawn up based on the undiscounted cash inflows of financial assets based on the maturity date. The tables include both interest and principal cash flows.

JANAF GROUP

	Weighted average effective interest rate %	Up to 1 month	1 to 3 months	3 months to 1 year	Total
2012					
Receivables and cash	-	130,361	-	-	130,361
Deposits and loans	4.36%	11,454	47,489	516,319	575,262
		141,815	47,489	516,319	705,623
2011					
Receivables and cash	-	115,172	-	-	115,172
Financial assets at FVTPL	-	30,499	-	-	30,499
Deposits and loans	3.46%	36,151	166,915	388,805	591,871
		181,822	166,915	388,805	737,542

JANAF D.D.

	Weighted average effective interest rate %	Up to 1 month	1 to 3 months	3 months to 1 year	Total
2012					
Receivables and cash	-	129,067	-	-	129,067
Deposits and loans	4.36%	11,454	47,489	517,288	576,231
		140,521	47,489	517,288	705,298
2011					
Receivables and cash	-	114,447	-	-	114,447
Financial assets at FVTPL	-	30,499	-	-	30,499
Deposits and loans	3.46%	36,151	166,915	389,691	592,757
		181,097	166,915	389,691	737,703

Notes to the financial statements (continued)

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

30. FINANCIAL INSTRUMENTS (CONTINUED)

Fair value of financial instruments

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

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are 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.

As at 31 December 2012 the presented amounts of cash, short term deposits, receivables, short term liabilities, accrued expenses, short term loans and other financial instruments correspond to their market value due to short term nature of these assets and liabilities.

Fair value measurements recognised in the statement of financial position

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

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

In 2011 the fair values of units in investment funds was determined by reference to Level 1 measurements and amounted to HRK 30.5 million (Note 16). In 2012 neither the Company nor the Group had any financial instruments that would have to be measured at fair value.

Notes to the financial statements (continued)

For the year ended 31 December 2012

(All amounts are expressed in thousands of kunas)

31 NET CHANGE IN CASH AND CASH EQUIVALENTS

At 31 December 2012 the Company reported a total decrease in cash and cash equivalents by HRK 176.4 million (2011: an increase of HRK 54.1 million). Positive cash flows in the amount of HRK 225.8 million (2011: an increase of HRK 275.8 million) were generated from operations. A negative cash flow of HRK 402.2 million (2011: a decrease of HRK 421.4 million) from investing activities is a result of payments made for purchases of tangible and intangible fixed assets and an increase in term deposits. No changes were identified on cash flows from financing activities (2011: an increase of HRK 199.7 million). Net changes in cash and cash equivalents of the Group are virtually the same as those for the Company, and the differences are not significant.

32. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Managing Board and authorised for issue on 5 March 2013.

Signed for and on behalf of the Company and the Group:

D.Sc. Dragan Kovačević, President of the Managing Board

Jakša Marasović, Member of the Managing Board

Bruno Šarić, Member of the Managing Board

Annual financial statements

For the year ended 31 December 2012

(All amounts are expressed in kunas)

The Regulation on the Structure and Content of the Annual Financial Statements (Official Gazette No. 38/08, 12/09, 130/10) has been promulgated in accordance with the Croatian Accounting Act (Official Gazette No. 109/07). Set out in the tables below are the financial statements prepared in accordance with the Regulation. The reconciliation presents the information pertaining solely to JANAF d.d. because the consolidated information, which includes its subsidiaries, are presented in the same format without the amounts being materially different.

Income Statement of JANAF D.D.

Item description	EDP code	# Notes	Prior year	Current year
1	2	3	4	5
I OPERATING INCOME (112+113)	111		420,114,805	456,227,732
1 Sales	112		411,216,997	401,058,917
2 Other operating income	113		8,897,808	55,168,815
II OPERATING EXPENSES (115+116+120+124+125+126+129+130)	114		357,758,848	376,304,488
1 Changes in the value of inventories of work in progress and finished products	115			
2 Material expenses (117 to 119)	116		53,219,501	54,991,345
a) Raw material and supplies	117		6,907,349	8,950,812
b) Cost of goods sold	118			
c) Other external charges	119		46,312,152	46,040,533
3 Staff expenses (121 to 123)	120		73,654,337	74,921,817
a) Net salaries and wages	121		40,649,749	40,950,910
b) Taxes and contributions out of salaries	122		22,197,127	23,650,921
c) Contributions on salaries	123		10,807,461	10,319,986
4 Depreciation and amortisation	124		165,863,614	173,538,533
5 Other expenses	125		34,503,083	36,828,766
6 Value adjustment (127+128)	126		17,152,007	93
a) Non-current assets (other than financial assets)	127			
b) Current assets (other than financial assets)	128		17,152,007	93
7 Provisions	129		13,366,306	36,023,934
8 Other operating expenses	130			
III FINANCIAL INCOME (132 to 136)	131		24,872,703	31,397,229
1 Interest income, foreign exchange gains, dividend and similar income from related-party transactions	132		22,784	39,280
2 Interest income, foreign exchange gains, dividend and similar income from transactions with third entities and individuals	133		19,633,164	31,357,949
3 Share in the income of associates and entities in which there is a participating interest	134			
4 Unrealised gains (income) from financial assets	135		5,216,755	
5 Other financial income	136		-	-
IV FINANCIAL EXPENSES (138 to 141)	137		11,606,831	8,772,457
1 Interest expense, foreign exchange losses and other expenses from related-party transactions	138			
2 Interest expense, foreign exchange losses and other expenses from transactions with third companies and individuals	139		11,606,831	8,772,457

Annual financial statements (continued)

For the year ended 31 December 2012

*(All amounts are expressed in kunas)***Income Statement (continued)**

3 Unrealised losses (expenses) from financial assets	140		-	-
4 Other financial expenses	141		-	-
V SHARE IN THE PROFIT OF ASSOCIATES	142		-	-
VI SHARE IN THE LOSSES OF ASSOCIATES	143		-	-
VII EXTRAORDINARY – OTHER INCOME	144		-	-
EXTRAORDINARY – OTHER EXPENSES	145		-	-
IX TOTAL INCOME (111+131+142 + 144)	146		444,987,508	487,624,961
X TOTAL EXPENSES (114+137+143 + 145)	147		369,365,679	385,076,945
XI PROFIT OR LOSS BEFORE TAXATION (146-147)	148		75,621,829	102,548,016
1 Profit before taxation (146-147)	149		75,621,829	102,548,016
2 Loss before taxation (147-146)	150		-	-
XII INCOME TAX	151		14,284,992	6,699,809
XIII PROFIT OR LOSS FOR THE PERIOD (148-151)	152		61,336,837	95,848,207
1 Profit for the period (149-151)	153		61,336,837	95,848,207
2 Loss for the period (151-148)	154		-	-
INCOME-STATEMENT SUPPLEMENT (to be completed by an entrepreneur preparing consolidated annual accounts)				
XIV PROFIT OR LOSS FOR THE PERIOD				
1 Attributable to the equity holders of the parent	155		-	-
2 Attributable to minority interest	156		-	-
STATEMENT OF OTHER COMPREHENSIVE INCOME (to be completed by an entrepreneur subject to IFRS reporting requirements)				
I PROFIT OR LOSS FOR THE PERIOD (=152)	157		61,336,837	95,848,207
II OTHER COMPREHENSIVE INCOME/LOSS BEFORE TAX (159 to 165)	158		-	-
1 Exchange differences on translation of a foreign operation	159		-	-
2 Movements in reserves on revaluation of non-current tangible and intangible assets	160		-	-
3 Profit or loss on revaluation of financial assets available for sale	161		-	-
4 Profit or loss on determining the effectiveness of cash-flow hedges	162		-	-
5 Profit or loss on determining the effectiveness of hedges of a net investment in a foreign operation	163		-	-
6 Share in other comprehensive income/loss of associates	164		-	-
7 Actuarial gains/losses on defined benefit plans	165		-	-
III TAX ON OTHER COMPREHENSIVE INCOME FOR THE PERIOD	166		-	-
IV NET OTHER COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD (158-166)	167		-	-
V COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD (157+167)	168		61,336,837	95,848,207
SUPPLEMENT to the Statement of Other Comprehensive Income (to be completed by an entrepreneur preparing consolidated annual accounts)				
VI COMPREHENSIVE INCOME OR LOSS FOR THE PERIOD				
1 Attributable to the equity holders of the parent	169		-	-
2 Attributable to minority interest	170		-	-

Annual financial statements (continued)

For the year ended 31 December 2012

*(All amounts are expressed in kunas)***Balance Sheet of JANAF D.D.**

Item description	EDP code	# Notes	Prior year (net)	Current year (net)
1	2	3	4	5
ASSETS				
A) RECEIVABLES FOR SUBSCRIBED CAPITAL UNPAID	001			
B) NON-CURRENT ASSETS (003+010+020+029+033)	002		2,747,409,251	2,895,491,467
I INTANGIBLE ASSETS (004 to 009)	003		85,055,623	82,041,415
1 Development expenses	004			
2 Concessions, patents, licences, trade and service marks, software and other rights	005		83,058,945	78,215,440
3 Goodwill	006			
4 Prepayments for purchases of intangible assets	007			
5 Intangible assets under development	008		1,996,678	3,825,975
6 Other intangible assets	009			
II TANGIBLE ASSETS (011 to 019)	010		2,652,425,103	2,796,112,707
1 Land	011		380,801,480	384,789,480
2 Buildings	012		1,146,399,252	1,027,373,460
3 Plant and equipment	013		361,450,220	339,722,563
4 Tools, plant fittings and vehicles	014		13,635,707	12,932,093
5 Biological assets	015			
6 Prepayments for tangible assets	016		44,712,341	20,069,538
7 Tangible assets under construction	017		480,073,556	779,044,655
8 Other tangible assets	018		225,352,547	232,180,918
9 Investment properties	019			
III NON-CURRENT FINANCIAL ASSETS (021 to 028)	020		970,178	1,070,859
1 Equity shares in related companies	021		47,266	64,046
2 Loans to related companies	022		885,712	969,613
3 Participating interests	023			
4 Loans to entities in which there is a participating interest	024			
5 Investments in securities	025			
6 Given loans, deposits and similar	026			
7 Other non-current financial assets	027		37,200	37,200
8 Investments accounted for under equity method	028			
IV RECEIVABLES (030 to 032)	029		171,787	6,208,057
1 Receivables from related companies	030			
2 Receivables in respect of credit sales	031		171,787	152,097
3 Other receivables	032			6,055,960
V DEFERRED TAX ASSETS	033		8,786,560	10,058,429
C) CURRENT ASSETS (035+043+050+058)	034		746,914,375	724,292,639
I INVENTORIES (036 to 042)	035		10,307,485	9,396,450
1 Raw material and supplies	036		10,307,485	9,396,450
2 Work in progress	037			
3 Finished products	038		-	-
4 Merchandise	039		-	-
5 Prepayments for inventories	040		-	-

Annual financial statements (continued)

For the year ended 31 December 2012

(All amounts are expressed in kunas)

Balance sheet (continued)

6 Non-current assets held for sale	041	-	-
7 Biological assets	042	-	-
II RECEIVABLES (044 to 049)	043	77,465,350	111,478,427
1 Receivables from related companies	044	12,120,715	12,230,212
2 Trade accounts receivable	045	44,356,905	70,637,555
3 Receivables from entities with participating interest	046		
4 Amounts due from employees and owners	047	17,372	168,384
5 Receivables from the State and other institutions	048	13,221,199	23,331,614
6 Other receivables	049	7,749,159	5,110,662
III CURRENT FINANCIAL ASSETS (051 to 057)	050	388,804,762	509,533,716
1 Equity shares in related companies	051		
2 Loans to related companies	052		
3 Participating interests	053		
4 Loans to entities in which there is a participating interest	054		
5 Investments in securities	055		
6 Given loans, deposits and similar	056	388,804,762	509,533,716
7 Other financial assets	057		
IV CASH WITH BANKS AND IN HAND	058	270,336,778	93,884,046
D) PREPAID EXPENSES AND ACCRUED INCOME	059	52,879	38,859
E) TOTAL ASSETS (001+002+034+059)	060	3,494,376,505	3,619,822,965
F) OFF-BALANCE SHEET ITEMS	061	2,153,684,934	1,784,534,819
A) CAPITAL AND RESERVES (063+064+065+071+072+075+078)	062	3,199,596,628	3,295,444,835
I SHARE (SUBSCRIBED) CAPITAL	063	2,720,676,600	2,720,676,600
II CAPITAL RESERVES	064	53,585	53,585
III RESERVES OUT OF PROFIT (066+067- 068+069+070)	065	231,597,348	263,799,187
1 Legal reserves	066	23,575,674	26,642,515
2 Reserves for own shares	067		
3 Own shares (deductible item)	068		
4 Statutory reserves	069		
5 Other reserves	070	208,021,674	237,156,672
IV REVALUATION RESERVE	071		
V RETAINED PROFIT OR ACCUMULATED LOSSES (073-074)	072	185,932,258	215,067,256
1 Retained earnings	073	185,932,258	215,067,256
2 Accumulated losses	074		
VI PROFIT OR LOSS FOR THE YEAR (076-077)	075	61,336,837	95,848,207
1 Profit for the year	076	61,336,837	95,848,207
2 Loss for the year	077		
VII MINORITY INTEREST	078		
B) PROVISIONS (080 to 082)	079	54,575,032	53,037,602
1 Provisions for retirement benefits, termination benefits and similar obligations	080	1,442,895	2,097,421
2 Provisions for taxes	081		
3 Other provisions	082	53,132,137	50,940,181
C) NON-CURRENT LIABILITIES (084 to 092)	083	91,661,517	94,760,964

Annual financial statements (continued)

For the year ended 31 December 2012

(All amounts are expressed in kunas)

Balance sheet (continued)				
1 Liabilities to related companies	084		-	-
2 Liabilities for loans, deposits and similar	085		-	-
Balance sheet (continued)				
3 Due to banks and other financial institutions	086		91,661,517	94,760,964
4 Advances received	087			
5 Trade accounts payable	088			
6 Liabilities in respect of securities	089			
7 Liabilities to entities in which there is a participating interest	090			
8 Other non-current liabilities	091			
9 Deferred tax liabilities	092			
D) CURRENT LIABILITIES (094 to 105)	093		138,064,490	142,619,473
1 Liabilities to related companies	094		184,648	325,706
2 Liabilities for loans, deposits and similar	095			
3 Due to banks and other financial institutions	096			
4 Advances received	097			
5 Trade accounts payable	098		115,229,168	127,790,584
6 Liabilities in respect of securities	099			
7 Liabilities to entities in which there is a participating interest	100			
8 Due to employees	101		3,643,863	5,838,903
9 Taxes, contributions and similar duties payable	102		5,951,811	4,576,072
10 Liabilities in respect of profit distributions (dividends payable)	103			42,016
11 Liabilities for non-current assets held for sale	104			
12 Other current liabilities	105		13,055,000	4,046,192
E) ACCRUED EXPENSES AND DEFERRED INCOME	106		10,478,838	33,960,091
F) TOTAL EQUITY AND LIABILITIES (062+079+083+093+106)	107		3,494,376,505	3,619,822,965
G) OFF-BALANCE SHEET ITEMS	108		2,153,684,934	1,784,534,819

Annual financial statements (continued)

For the year ended 31 December 2012

*(All amounts are expressed in kunas)***Statement of Cash Flows of JANAF D.D.**

Item description	EDP code	# Notes	Prior year	Current year
1	2	3	4	5
CASH FLOWS FROM OPERATING ACTIVITIES				
1 Profit before tax	001		75,621,829	102,548,016
2 Depreciation and amortisation	002		165,863,614	173,538,533
3 Increase in current liabilities	003		61,828,083	5,684,198
4 Decrease in current receivables	004			
5 Decrease in inventories	005			911,034
6 Other increases in cash flows	006		5,430,074	
I Total increase in cash flows from operating activities (001 to 006)	007		308,743,600	282,681,781
1 Decrease in current liabilities	008			
2 Increase in current receivables	009		30,314,478	52,285,087
3 Increase in inventories	010		2,551,155	
4 Other decreases in cash flows	011			4,532,620
II Total increase in cash flows from operating activities (008 to 011)	012		32,865,633	56,817,707
A1) NET INCREASE IN CASH FLOWS FROM OPERATING ACTIVITIES (007-012)	013		275,877,967	225,864,074
A2) NET DECREASE IN CASH FLOWS FROM OPERATING ACTIVITIES (012-007)	014		-	-
CASH FLOWS FROM INVESTING ACTIVITIES				
1 Cash received from sale of non-current tangible and intangible assets	015		103,252	181,884
2 Cash received from sale of equity and debt instruments	016			
3 Interest received	017		17,498,958	25,723,268
4 Dividends received	018			
5 Other cash received from investing activities	019			
III Total cash received from investing activities (015 to 019)	020		17,602,210	25,905,152
1 Cash paid for purchases of non-current tangible and intangible assets	021		288,509,547	307,409,104
2 Cash paid on acquisition of equity and debt instruments	022			
3 Other cash used in investing activities	023		150,530,505	120,812,854
IV Total cash paid for investing activities (021 to 023)	024		439,040,052	428,221,958
B1) NET INCREASE IN CASH FLOWS FROM INVESTING ACTIVITIES (020-024)	025		-	-
B2) NET DECREASE IN CASH FLOWS FROM INVESTING ACTIVITIES (024-020)	026		421,437,842	402,316,806
CASH FLOWS FROM FINANCING ACTIVITIES				
1 Cash receipts on issuance of equity and debt instruments	027		250,247,340	
2 Cash received from loan principal, debentures, borrowings and other borrowed funds	028		-	-
3 Other receipts from financing activities	029		-	-

Annual financial statements (continued)

For the year ended 31 December 2012

*(All amounts are expressed in kunas)***Statement of Cash Flows of JANAF D.D. (continued)**

V Total cash received from financing activities (027 to 029)	030		250,247,340	-
1 Repayments of loan and bond principals	031			
2 Dividends paid	032		50,556,238	
3 Cash paid under finance leases	033			
4 Cash paid for purchase of own shares	034			
5 Other cash used in financing activities	035			
VI Total cash paid for financing activities (031 to 035)	036		50,556,238	-
C1) NET INCREASE IN CASH FLOWS FROM FINANCING ACTIVITIES (030-036)	037		199,691,102	-
C2) NET DECREASE IN CASH FLOWS FROM FINANCING ACTIVITIES (036-030)	038		-	-
Total increase in cash flows (013 – 014 + 025 – 026 + 037 – 038)	039		54,131,227	-
Total decrease in cash flows (014 – 013 + 026 – 025 + 038 – 037)	040		-	176,452,732
Cash and cash equivalents at beginning of period	041		216,205,551	270,336,778
Increase in cash and cash equivalents	042		54,131,227	
Decrease in cash and cash equivalents	043			176,452,732
Cash and cash equivalents at end of period	044		270,336,778	93,884,046

Annual financial statements (continued)

For the year ended 31 December 2012

(All amounts are expressed in kunas)

Reconciliation between Non-statutory annual financial statements and the Statutory annual accounts

In accordance with the Decree on the Structure and Content of the Annual Financial Statements (Official Gazette Nos. 38/08, 12/09 and 130/10), companies preparing IFRS financial statements have the obligation to deliver, for public disclosure purposes, their financial statements to the Financial Agency prepared under the Decree (“the Statutory Annual Financial Statements”), which represent an alternative presentation of the IFRS annual financial statements (for the purpose of public disclosure referred to as the “Non-statutory annual financial statements”). IFRSs prescribe the minimum items to be disclosed, depending on the materiality of individual items for the financial statement taken as a whole, and a different classification of individual items which give rise to certain differences between the structure of the Statutory and the Non-statutory financial statements.

The differences between the Income Statement and the Statement of Comprehensive Income

In the Statement of Comprehensive Income, “Other operating expenses” in the amount of HRK 72,853 thousand (2011: HRK 65,021 thousand) contain the following Income Statement Items: “Other expenses” in the amount of HRK 36,829 thousand (2011: HRK 34,503 thousand, and “Provisions” in the amount of HRK 36,024 thousand (2011: HRK 13,366 thousand).

All other items are identical in their descriptions, content and amounts as well as in the structure of the accompanying notes.

Differences between the Balance Sheet and the Statement of Financial Position

In the Statement of Financial Position, “Other financial assets” in the amount of HRK 1,007 thousand (2011: HRK 923 thousand) contain the following Balance Sheet items: “Loans to related companies” in the amount of HRK 970 thousand (2011: HRK 886 thousand) and “Other financial Assets” in the amount of HRK 37 thousand (2011: HRK 37 thousand).

“Non-current receivables” presented in the Statement of Financial Position in the amount of HRK 6,209 thousand (2011: HRK 172 thousand) contain the following Balance Sheet items: „Receivables in respect of credit sales” in the amount of HRK 153 thousand (2011: HRK 172 thousand) and “Other receivables” in the amount of HRK 6,056 thousand (2011: nil thousand).

“Trade and other receivables” reported in the Statement of Financial Position in the amount of HRK 99,248 thousand (2011: HRK 65,345 thousand) contain the following Balance Sheet items: “Trade receivables” in the amount of HRK 70,638 thousand (2011: HRK 44,356 thousand), “Amounts due from employees and owners” in the amount of HRK 168 thousand (2011: HRK 18 thousand), “Receivables from the State and other institutions” in the amount of HRK 23,331 thousand (2011: HRK 13,221 thousand) and “Other receivables” in the amount of HRK 5,111 thousand (2011: HRK 7,750 thousand).

In the Statement of Financial Position, “Other assets” in the amount of HRK 39 thousand (2011: HRK 53 thousand) comprise the Balance Sheet item “Prepaid expenses and accrued income”.

Annual financial statements (continued)

For the year ended 31 December 2012

(All amounts are expressed in kunas)

Differences between the Balance Sheet and the Statement of Financial Position (continued)

“Reserves” reported in the Statement of Financial Position in the amount of HRK 263,853 thousand (2011: HRK 231,651 thousand) comprise the following Balance Sheet items: “Capital reserves” in the amount of HRK 54 thousand (2011: HRK 54 thousand) and “Reserves out of profit” in the amount of HRK 263,799 thousand (???)

“Trade and other payables” reported in the Statement of Financial Position in the amount of HRK 142,619 thousand (2011: HRK 138,065 thousand) relates to the Balance Sheet item “Current liabilities”, which consists of the following:

“Liabilities to related companies” in the amount of HRK 326 thousand (2011: HRK 185 thousand), “Trade payables” in the amount of HRK 127,790 thousand (2011: HRK 115,229 thousand), “Due to employees” in the amount of HRK 5,839 thousand (2011: HRK 3,644 thousand), “Taxes, contributions and similar duties payable” in the amount of HRK 4,576 thousand (2011: HRK 5,952 thousand), “Liabilities in respect of profit distributions” in the amount of HRK 42 thousand (2011: nil thousand) and “Other current liabilities” in the amount of HRK 4,046 thousand (2011: HRK 13,055 thousand).

The Balance Sheet item “Accrued expenses and deferred income” reported in the amount of HRK 33,960 thousand (2011: HRK 10,479 thousand) is presented in the Statement of Financial Position in two separate items: “Short-term provisions” in the amount of HRK 22,364 thousand (2011: nil thousand), relating to contingent liquidated damages, and “Other liabilities” in the amount of HRK 11,596 thousand (2011: HRK 10,479 thousand).

Differences between the (Statutory) Cash Flow Statement and the (Non-statutory) Statement of Cash Flows

In the Statutory Cash Flow Statement, a gross profit was reported in the amount of HRK 102,548 thousand (2011: HRK 75,622 thousand), which was presented in the Non-statutory Statement of Cash Flows as two items: “Net profit” in the amount of HRK 95,848 thousand (2011: HRK 61,337 thousand) and “Income tax expense” in the amount of HRK 6,700 thousand (2011: HRK 14,285 thousand).

In the Statutory Cash Flow Statement, “Depreciation and amortisation” amount to HRK 173,539 thousand (2011: HRK 165,864 thousand), whereas in the Non-statutory Statement of Cash Flows “Depreciation” and “Amortisation” were presented separately in the amount of HRK 167,120 thousand (2011: HRK 159,662 thousand) and HRK 6,419 thousand (2011: HRK 6,202 thousand), respectively.

“Other decreases in cash flows” in the Statutory Cash Flow Statement in the amount of HRK 4,533 thousand comprise the following items from the Non-statutory Statement of Cash Flows: “Surpluses and net book value of disposed non-current assets, net” (HRK 6,808 thousand), “Provisions” (HRK 21,001 thousand), “Accrued interest on loans” (HRK 4,651 thousand), “Negative exchange differences on loans” (HRK 1,549 thousand) and “Paid income tax advances” (HRK 21,828 thousand).

Annual financial statements (continued)

For the year ended 31 December 2012

(All amounts are expressed in kunas)

Differences between the (Statutory) Cash Flow Statement and the (Non-statutory) Statement of Cash Flows (continued)

In the Statutory Cash Flow Statement, "Cash paid for purchases of non-current tangible and intangible assets" reported in the amount of HRK 307,409 thousand (2011: HRK 288,510 thousand) contains the following items the Non-statutory Statement of Cash Flows: " Payments for purchases of tangible assets " in the amount of HRK 304,006 thousand (2011: HRK 275,593) and "Payments for purchases of intangible assets" in the amount of HRK 3,405 thousand (2011: HRK 12,917 thousand).

The line item "Cash paid for investing activities" reported in the Statutory Cash Flow Statement in the amount of HRK 120,813 thousand (2011: HRK 150,531 thousand) comprises the following items from the Non-statutory Statement of Cash Flows: "Increase in deposits" in the amount of HRK 120,729 thousand (2011: HRK 150,008 thousand), "Given loans" in the amount of HRK 84 thousand (2011: HRK 486 thousand) and "Purchases of shares" (2012: nil thousand; 2011: HRK 37 thousand).