

INA Group (ZSE: INA – R-A; LSE: HINA; homepage: www.ina.hr), announced its results for fiscal year 2006 today. This report contains consolidated financial statements for the period ending 31 December 2006 as prepared by the management in accordance with International Financial Reporting Standards (IFRS).

### Financial highlights

| INA Group financial results<br>(IFRS) | FY 2005 |                    | FY 2006           |                    | Change % |      |
|---------------------------------------|---------|--------------------|-------------------|--------------------|----------|------|
|                                       | MHRK    | MUSD <sup>1)</sup> | MHRK              | MUSD <sup>1)</sup> | HRK      | USD  |
| Net sales revenues                    | 21,070  | 3,541              | 23,434            | 4,013              | 11       | 13   |
| EBITDA                                | 2,966   | 499                | 2,474             | 424                | (17)     | (15) |
| Operating profit                      | 1,410   | 237                | 974               | 167                | (31)     | (30) |
| Net financial gain/(expenses)         | (337)   | (56)               | 131               | 22                 | -        | -    |
| Net income                            | 885     | 149                | 883 <sup>2)</sup> | 151                | 0        | 2    |
| Operating cash flow                   | 1,249   | 210                | 1,429             | 245                | 14       | 17   |

<sup>1)</sup> In converting HRK financial data into US Dollars, the following average NBH rates were used: for 2005: 5.948 HRK/USD, for 2006: 5.8358 HRK/USD, both calculated as arithmetic mean.

<sup>2)</sup> INA Group net income attributable to equity holder.

#### Dr Tomislav Dragičević, Chairman of INA, d.d. commented:

"INA closed the year 2006 with solid financial results and excellent upstream performance. In 2006 INA Group generated profit of US\$ 167 million which is lower than in 2005 mainly due to unfavourable prices of natural gas on the Croatian market.

Outstanding results were achieved in E&P. In Q4 oil was discovered on the East Yidma concession in Egypt. Crude oil production has increased in Syria. The Palmyra gas field was put into production by the end of the year. Overall gas production from off-shore Adriatic was 680 million m<sup>3</sup>.

All these new developments will contribute to revenue growth. In Downstream, the Refinery Modernisation project continues. Additionally, the efficiency improvement program, OPTINA, has started to give results. In summary, INA is delivering on its strategy".

**Sales revenues from INA Group's activities increased by 11%, reaching a record level of HRK 23,434 M.**

**Operating profit decreased by HRK 436 M, to HRK 974 M (USD 167 M) in 2006. The decrease was mainly due to relatively low margins of refined products on the domestic market and the unfavourable product slate of the refineries.**

**The negative effect was partially offset by the increase in the Financial results from HRK 337 M loss in 2005 to a gain of HRK 131 M 2006 caused by foreign exchange gains related to the strengthening of Kuna against US dollar.**

**The Net income of the Group for year 2006 reached HRK 883 M.**

- **Exploration & Production**

In the Exploration and Production segment operating profit increased by HRK 61 M, reaching HRK 1,623 M (USD 278 M) in 2006. The increase was mainly due to an 8% increase in the average daily hydrocarbon production and higher crude oil prices. The positive effects were partially offset by the loss on the sales of imported natural gas and the weakening of the US dollar against the HRK.

- **Refining & Marketing**

The Refining & Marketing segment contributed to the result of INA Group with an operating profit of HRK 170 M, which is a decrease of HRK 229 M in comparison with 2005. The positive effect of the 17% increase on the average crack spreads in 2006 was offset by the unfavourable impact of the change in the pricing formula regulating the domestic refined product prices and the interference of the major shareholder capping the motor fuel prices during the summer period resulting in HRK 430 M negative impact.

- **Retail**

The average throughput per site increased by 6.7% to 2,814 tones for year 2006. In spite of the 13% increase in sales revenue the operating profit of the Retail segment decreased by HRK 32 M, and resulted in HRK 33 M (USD 5 M) for year 2006. The decrease is partially due to the lower retail margins and capping the motor fuel prices on INA's domestic market.

- **Corporate and Other<sup>1</sup>**

Successful implementation of the SAP integrated information system was introduced. Corporate and Other business segment's operating loss amounted to HRK 852 M (USD 146 M). The loss increased by HRK 236 M year-on-year, primarily resulting from a decrease in sales revenues of maintenance services provided to other segments.

- **Capital expenditures**

Capital expenditures reached HRK 3,072 M (USD 526 M) in 2006. The increase was mainly due to the capital expenditures of Upstream projects (putting into development the North Adriatic and Syrian projects) and start up of the refinery modernisation programme.

- **Operating cash flow**

The Operating Cash Flow before changes in working capital decreased by 12% to HRK 2,398 M. The changes in the working capital were mainly caused by changes in the inventories and changes in trade receivables. Other payables decreased net cash flow from operating activities by HRK 969 M. Increased capital expenditures were financed by new indebtedness of HRK 1,502 M.

<sup>1</sup> Corporate and Other stands for Safety and security services business, maintenance services business and other support services

## **Overview of the environment**

**Global economic growth** accelerated in the first half of 2006 and slowed down in the second half of 2006, reaching 3.9%, compared to 3.5% in 2005. The geographical analyses of growth showed strong expansion in developing economies, particularly in China, where it was driven by booming investment activity. In the United States the GDP growth was estimated at 3.2%, although there was a slowdown in the second half of 2006 arising from higher short-term interest rates. In Euro zone economies, GDP growth accelerated after several years of weakness boosted by private consumption and investment spending<sup>2</sup>.

**Crude oil prices** reached an all-time record high of over USD 78/bbl in early August 2006. As of September, the slowing growth in demand (of US economy in particular), the release of 60 million bbl of oil inventories by IEA, and warm weather brought oil prices to the level below USD 60/bbl, roughly 20% down on the record level. Impact on price decrease came also from additional crude supply from recovered crude productions after hurricanes and new capacities, primarily from the Caspian region.

The average FOB MED quoted price of BRENT increased by 19% in USD terms compared to 2005.

The quoted crack spread in 2006 shows an improvement compared to the 2005 (from 33.4 USD/Mt to 39.5 USD/Mt). According to Platt's quotations, Premium unleaded gasoline 150 ppm spread grew by remarkable 20.6 % (from 97.8 USD/Mt in 2005 to 117.8 USD/Mt in 2006), negative fuel oil of 3.5% spread increased by 11.4 % (from -190.5 USD/Mt in 2005 to -212.3 USD/Mt in 2006) and Gasoil EN590 350 PPM spread decreased by 4.6% (from 112.7 USD/Mt in 2005 to 107.5 USD/Mt in 2006).

The **USD** depreciated by an average of 1.9% against the HRK (11% depreciation as at 31 December 2006 compared 31 December 2005), while the EUR slightly depreciated by an average of 0.3% against the HRK in 2006. The year-end EUR remained almost unchanged (from 7.38 to 7.35) in 2006.

**In Croatia**, the year-on-year growth of GDP not only continued but also accelerated in 2006 as a result of stronger investment dynamics, increased private consumption and increased state spending. CPI inflation slightly decreased from 3.3% in 2005 to 3.2% in 2006, mostly due to weather-driven food prices increase offset by falling fuel costs. Trade deficit has been increased primarily due to strong domestic demand and consumption supported by spreading credit availability. There is a continuing growth in refined product demand where a slight decline in demand for motor gasolines has been more than comfortably off-set by a significant rise in diesel fuel demand.

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<sup>2</sup> Source: Global Economic prospects 2007, The International Bank for Reconstruction and Development / The World Bank

## Exploration and production\*

| Segment IFRS results | in million | FY 2005 |       | FY 2006 |       | Change % |      |
|----------------------|------------|---------|-------|---------|-------|----------|------|
|                      |            | HRK     | USD   | HRK     | USD   | HRK      | USD  |
| Revenues             |            | 6,607   | 1,111 | 6,794   | 1,164 | 2.8      | 4.8  |
| Operating profit     |            | 1,562   | 263   | 1,623   | 278   | 3.9      | 5.7  |
| CAPEX                |            | 1,399   | 235   | 1,747   | 299   | 24.9     | 27.2 |

  

| HYDROCARBON PRODUCTION                     | FY 2005 | FY 2006 | Ch %  |
|--|---------|---------|-------|
| Crude oil production (MMbbl)               | 6.1     | 6.2     | 1.6   |
| Croatia                                    | 4.7     | 4.6     | (2.1) |
| Abroad                                     | 1.4     | 1.6     | 14.3  |
| Condensate (MMbbl)                         | 2.7     | 3.1     | 14.8  |
| Natural gas production (Bcf)               | 64.8    | 71.8    | 10.8  |
| Croatia                                    | 64.8    | 71.8    | 10.8  |
| -onshore                                   | 49.2    | 47.7    | (3.0) |
| -offshore                                  | 15.7    | 24.1    | 53.5  |
| Average hydrocarbon production (Mboed)     | 53.8    | 58.2    | 8.2   |
| Natural gas imports (Bcf)                  | 39.9    | 39.8    | (0.3) |
| Natural gas sales on domestic market (Bcf) | 97.2    | 94.7    | (2.6) |

  

| Realised hydrocarbon price                         | FY 2005 | FY 2006 | Ch % |
|--|---------|---------|------|
| Average realised crude oil price (USD/bbl)         | 52.5    | 60.0    | 14.3 |
| Average realised total hydrocarbon price (USD/boe) | 35.2    | 38.9    | 10.5 |

\*Exploration and Production refers to the Upstream of INA, d.d. and following subsidiaries: Croscos Group, INA Naftaplin IE&PL, Guer, Aditagas S.r.l. Milano

The operating profit of the E&P segment amounted to HRK 1,623 M, increasing by HRK 61 M (or 4%) in 2006 year-on-year. The positive effect of increase in crude oil production and average crude oil price (Brent FOB rose 19% year-on-year) was partially offset by the increase in taxes due to higher natural gas production<sup>3</sup>, increased costs of imported gas marketed in Croatia (due to government interference the increased price of imported natural gas of 32% INA could not realize) and internal costs for damage compensation to refinery due to lower domestic condensate quality.

### Yearly hydrocarbon production cost

| USD/Boe            | 2005 | 2006 |
|--------------------|------|------|
| Croatia - onshore  | 9.3  | 9.2  |
| Croatia - offshore | 8.8  | 7.1  |
| Angola             | 11.7 | 14.9 |
| Egypt              | 8.3  | 6.5  |
| Syria              | 0    | 16.3 |

### Hydrocarbon production

| Mboe/day               | 2005 | 2006 |
|------------------------|------|------|
| Crude Oil              | 16.8 | 16.9 |
| Natural Gas condensate | 7.4  | 8.5  |
| Natural Gas            | 29.6 | 32.8 |
| Total                  | 53.8 | 58.2 |

Average daily hydrocarbon production in 2006 increased by 8%, exceeding 58.2 Mboe/day. The increase was mainly due to a 54% increase of North Adriatic gas production.

The impact of regulated natural gas prices on INA's domestic market was negative on the revenues of E&P segment. The average import price of Russian natural gas for 2005 was 1330 HRK/Mcm/33.34 MJ and for 2006 it was 1769 HRK/Mcm/33.34 MJ.

### Price Differential to Import Prices

| in HRK/Mcm/33.34 MJ       | 2005. | 2006. |
|---------------------------|-------|-------|
| Eligible customers' price | -710  | -999  |
| Tariff customers' price   | -262  | -700  |
| Total price               | -442  | -827  |

Upstream Capex increased by HRK 348 M to HRK 1,747 M in 2006, of which 59% (HRK 1,032 M) are projects in Croatia. Among domestic projects, North Adriatic gas project is the most significant with the total budget of HRK 523 M (92% are development works including construction of the pipeline and connection pipeline to the main pipeline). In concessions abroad, a total of HRK 715 M was invested (major investments in Syria HRK 509 M, and in Egypt HRK 98 M).

Proved reserves for 2006 amounted to 261.1 MMboe (an increase of 16.0 MMboe in comparison with 2005) while proved and probable reserves decreased by 4.6 MMboe to 381.2 MMboe. Reserves replacement ratio was 174.8% for proved reserves and 73.9% for proved and probable reserves.

<sup>3</sup> according to the Production Sharing Agreement, INA pays a portion of ENI's profit tax from the joint production of gas in North Adriatic

## Refining & Marketing\*

| Segment IFRS results | in million | FY 2005 |       | FY 2006 |       | Change % |        |
|----------------------|------------|---------|-------|---------|-------|----------|--------|
|                      |            | HRK     | USD   | HRK     | USD   | HRK      | USD    |
| Revenues             |            | 15,724  | 2,644 | 18,136  | 3,108 | 15.3     | 17.5   |
| Operating profit     |            | 399     | 67    | 170     | 29    | (57.4)   | (56.6) |
| CAPEX                |            | 611     | 103   | 850     | 146   | 39.1     | 41.7   |

  

| REFINERY PROCESSING Kt           | FY 2005      | FY 2006      | Ch %         |
|----------------------------------|--------------|--------------|--------------|
| Domestic crude oil               | 660          | 651          | (1.4)        |
| Imported crude oil               | 3,999        | 3,799        | (5.0)        |
| Condensates                      | 195          | 185          | (5.1)        |
| Other feedstock                  | 324          | 267          | (17.6)       |
| <b>TOTAL REFINERY THROUGHPUT</b> | <b>5,178</b> | <b>4,902</b> | <b>(5.3)</b> |

  

| TOTAL REFINERY PRODUCTION | FY 2005 | FY 2006 | Ch %  |
|---------------------------|---------|---------|-------|
|                           | 5,178   | 4,902   | (5.3) |

  

| REFINED PRODUCT SALES Kt             | FY 2005      | FY 2006      | Ch %         |
|--------------------------------------|--------------|--------------|--------------|
| Croatia                              | 3,035        | 2,918        | (3.8)        |
| BiH                                  | 577          | 635          | 10.2         |
| Other markets                        | 1,304        | 1,219        | (6.6)        |
| <b>TOTAL CRUDE OIL PRODUCT SALES</b> | <b>4,916</b> | <b>4,772</b> | <b>(2.9)</b> |

  

| REFINED PRODUCT SALES Kt             | FY 2005      | FY 2006      | Ch %         |
|--------------------------------------|--------------|--------------|--------------|
| Motor gasoline                       | 1,278        | 1,234        | (3.4)        |
| Gas and heating oils                 | 2,753        | 2,624        | (4.7)        |
| Other products                       | 885          | 914          | 3.3          |
| <b>TOTAL CRUDE OIL PRODUCT SALES</b> | <b>4,916</b> | <b>4,772</b> | <b>(2.9)</b> |

\*Refers to Refining & Marketing INA, d.d. and following subsidiaries: Mazi va Zagreb, Proplin, Crobenz Osijek Petrol, InterIna Ljubljana, InterIna Mostar, InaBH Sarajevo, Interina Skopje, InterIna CO Ltd. Hungary, Commercina Zug, FPC Ltd., Ina Crna Gora, Ina Ltd, Beograd, Interina holding London, Hol dina Ltd, Guernsey.

**Operating profit** of the R&M segment decreased by HRK 229 M in comparison with 2005, resulting in HRK 170 M operating profit for 2006.

The positive effect of the increase in the average crack spread by 17% in 2006 was partially offset by the unfavourable impact of changes in the Rulebook on Refined Product Pricing (total effect of HRK 122 M) and the restriction on charging the maximum prices under the pricing formula for retail products due to price cap introduced by the regulator from May to September 2006 (total effect of HRK 308 M).

**Total sales volumes decreased** by 3% year-on-year to 4,772 Kt as a result of lower product supply during general overhaul at Rijeka Refinery and stoppages due to capital projects. These were not compensated with imports (as they lacked profitability during the state-imposed price cap).

The strong market position of INA is continuing, although in 2006 there was a slight decline in the market share in Croatia and an increase in Bosnia and Herzegovina.

**Demand for gasoline** increased by 2% compared to 2005, while INA's sales dropped by 3% on the domestic market. Gas oil consumption grew by 4% year-on-year while the Company's sales decreased by 4%.

**In Bosnia and Herzegovina**, the recovering consumer and industry demand resulted in significant increase in the Company's sales. INA's sales of motor gasoline and gas oil increased by 9% and 10% respectively in comparison with 2005.

**In other markets**, the main goal was profit optimisation.

**CAPEX** increased by HRK 239 M in 2006 mainly due to Refinery Modernisation Programme in the Sisak Refinery (by HRK 130 M) and reconstruction and revitalisation projects in the Rijeka Refinery (vacuum distillation, isomerisation unit and FCC unit).

## Retail\*

| Segment IFRS results<br>in million | FY 2005 |     | FY 2006 |     | Change % |        |
|------------------------------------|---------|-----|---------|-----|----------|--------|
|                                    | HRK     | USD | HRK     | USD | HRK      | USD    |
| Revenues                           | 4,994   | 840 | 5,669   | 971 | 13.5     | 15.6   |
| Operating profit                   | 65      | 11  | 33      | 6   | (49.2)   | (48.3) |
| CAPEX                              | 125     | 21  | 117     | 20  | (6.4)    | (4.6)  |

### Key Segment operating data

| REFINED PRODUCT RETAIL<br>SALES Kt        | FY 2005      |  | FY 2006      |  | Ch %       |
|---|--------------|--|--------------|--|------------|
| Motor gasoline                            | 461          |  | 469          |  | 1.7        |
| Gas and heating oils                      | 600          |  | 657          |  | 9.3        |
| LPG                                       | 24           |  | 24           |  | 0.6        |
| Other products                            | 5            |  | 5            |  | (0.7)      |
| <b>TOTAL OIL PRODUCT RETAIL<br/>SALES</b> | <b>1,090</b> |  | <b>1,154</b> |  | <b>5.9</b> |

| in million         | FY 2005      |            | FY 2006      |            | Change %    |             |
|--------------------|--------------|------------|--------------|------------|-------------|-------------|
|                    | HRK          | USD        | HRK          | USD        | HRK         | USD         |
| <b>TOTAL SALES</b> | <b>4,994</b> | <b>840</b> | <b>5,624</b> | <b>964</b> | <b>12.6</b> | <b>14.8</b> |

\* Refers to Retail INA, d.d. and Petrol Rijeka

In 2006, the **operating profit** of HRK 33 M recorded by Retail decreased by HRK 32 M compared to the previous year. Sales revenues increased by 13% but the average retail margins decreased by 22% because of the necessity to share the negative effect of the price cap with R&M.

At the end of 2006, 407 **petrol stations** were operated by the INA Retail segment and 18 by INA's fully owned subsidiaries in Croatia; in addition 41 petrol stations in Bosnia and Herzegovina and 6 in Slovenia.

In 2006 MOL/INA consortium, with equal shares, concluded a Recapitalization Agreement with the purpose of acquiring 67% in Energopetrol (Bosnia and Herzegovina). The acquired stake in this company shall be incorporated in the books of INA in 2007 accordingly.

**Total retail volumes** increased by 5.9% while the average throughput per site increased by 6.7% to 2,814 Kt for 2006 in comparison with 2005. Due to a good tourist season sales of both motor gasoline and diesel increased by 1.7% and 10.8%, respectively. The increase was partially off-set by a decrease in heating oil volumes by 12.3%, primarily because of warehouses closing. Sales of lubes and other products stayed on level of year 2005.

In 2006, total purchases with **INA Card** remained at 23% of total fuel sales.

**Shop sales** revenues grew by 11% in 2006. The gross margin per litre of fuel sold increased by 17% in comparison with 2005.

**CAPEX** reached HRK 117 M in 2006. The strategy defining the criteria for petrol station segmentation was adopted last year and the majority of CAPEX was spent accordingly: The total of HRK 39 M was invested into the construction of new petrol stations (the construction of 3 premium stations was completed), and HRK 24 M was invested in reconstructions.

## Financial overview

### ***Changes in accounting policies and estimates***

In the current year, the Company and the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 January 2006.

The adoption of new and revised Standards and Interpretations has resulted in changes to the Company's and Group's accounting policies in certain areas, but have not affected the amounts reported for the current or prior years.

### ***Operations***

In 2006, INA Group net sales revenues increased by 11%, amounting to HRK 23.4 billion, primarily reflecting increased sales volumes and average price of crude oil, and a slightly increased prices of natural gas for eligible customers.

A negative impact on 2006 sales income resulted from the amendments in the Rulebook on Refined Product Pricing (HRK 122 M) and the state influence on pricing (HRK 308 M). INA continues to suffer the negative impact of the major shareholders' interference on gas prices on the domestic market for not being able to pass the increased price of Russian imported gas onto its customers.

The cost of raw materials and consumables increased by 10% in 2006 compared to last year. Within this, the crude oil cost increased by 13% as a result of a sharp increase in crude oil import prices. This was off-set by 5% decrease in the quantity of imported crude oil. The cost of other goods sold increased by 23% to HRK 4.1 billion as a result of 32% higher average price (in Kuna) of imported natural gas and increased quantities and prices of imported oil products sold in the period when the refineries' overhaul shutdowns were in progress. Service costs increased by 20% to HRK 3.8 billion resulting from higher consultancy services costs, implementation of SAP and cost of the privatisation process. Depreciation was lower by HRK 29 M. Adjustments and provisions decreased by 5% to HRK 536 M. Total staff costs grew by 6%, including an average salary increase of 10%. The closing headcount of the Group as at 31 December 2006 was 15,873. This presents a slight decrease in comparison with the 2005 closing headcount of 15,989.

Other operating expenses increased by HRK 391 million primarily due to a decrease in changes in inventories of refined products.

The Financial profit for 2006, amounted to HRK 131 M (in comparison with the net financial loss of HRK 337 in 2005). The contributions to the result were primarily net foreign exchange gains of HRK 309 M off set by HRK 202 M of net interest payable. Comparative figures for 2005 were HRK 183 M foreign exchange loss and HRK 147 M interest payable, respectively. Net exchange gains in 2006 resulted from a weak US dollar at the end of the year (Kuna appreciated 11% at 31 December to 1 January 2006) and increased long-term indebtedness. Due to higher short-term financing requirements in 2006, the net interest payable increased by HRK 55 M in comparison with the 2005 result.

The corporate tax for 2006 decreased by HRK 40 M, resulting in HRK 221 M, mainly due to the deferred tax effect.

## **Balance sheet**

As at 31 December 2006, total assets amounted to HRK 22.2 billion, 9% up on the previous year-end. Non-current tangibles and intangibles increased by 11%. Intangible assets were increased significantly due to higher investments in exploration in Egypt, and Croatian fields in Međimurje, Panon and North Adriatic, while Property, Plant and Equipment increased as a result of investments in development operations in Syria and Egypt, and the retail network modernisation.

Inventories decreased by 18% to HRK 2.8 billion mainly as a result of projects which reduced the level of inventories and decreased volumes of refined products.

Net trade receivables increased by 10% to HRK 2.5 billion due to higher refined product prices.

Other receivables increased by HRK 458 M to HRK 0.7 billion as a result of the increased amount of prepaid tax.

As at 31 December 2006, total INA Group total liabilities increased by 10% (to the total of HRK 9.4 billion). The increase of liabilities is the result of increased long-term and short-term loans in total of HRK 3.9 billion in comparison with HRK 2.2 billion in the same period of 2005. The loans were used for investments which exceeded 2005 figures, and for decreasing accounts payable, mostly crude oil payables. Accounts payable were reduced to the total of HRK 2.8 billion (at 31 December 2005 they had amounted to HRK 3.2 billion). Long-term provisions amounted to HRK 1.2 billion compared to HRK 1.8 billion at the end of the previous year. These mainly resulted from decreasing the calculated provisions for decommissioning costs (HRK 399 M) and the reversal of a provision for tax liabilities in the amount of HRK 193 M.

Total net debt of INA Group amounted to HRK 3.3 billion in comparison with HRK 1.8 billion at the end of 2005 while net gearing (net debt to net debt plus shareholders' equity including minority interest) increased from 13.3% to 20.5% at the end of 2006.

## **Cash flow**

Operating cash flow in 2006 was HRK 1,429 M, which is 14% up on the 2005 figure. Operating cash flow before movements in working capital decreased by 12% due to the decrease in the operating profit of 2006. The increase of working capital decreased the funds by HRK 969 M, resulting from the change in receivables and trade payables of HRK 487 M and HRK 314 M respectively, as well as a decrease in inventories of HRK 484 M. Corporate taxes paid amounted to HRK 505 M, mainly due to lower profit of INA, d.d.

Net cash outflow for investing activities was HRK 3,025 M in comparison with the net cash of HRK 1,980 M spent in 2005. The increase in investments had an increasing effect on corporate net indebtedness by HRK 1,502 M.

## INA Group Summary Segmental Results of Operations

|   | Year ended 31 December |              |               |              |
|---|------------------------|--------------|---------------|--------------|
|   | 2005                   |              | 2006          |              |
|   | in HRK mill            | USD mill     | in HRK mill   | USD mill     |
| <b>Sales</b>  |                        |              |               |              |
| Exploration & Production  | 6,607                  | 1,111        | 6,794         | 1,164        |
| Refining & Wholesale  | 15,724                 | 2,644        | 18,136        | 3,108        |
| Retail  | 4,994                  | 840          | 5,669         | 971          |
| Corporate and Other   | 973                    | 164          | 690           | 118          |
| Inter-segment revenue   | (7,228)                | (1,215)      | (7,855)       | (1,346)      |
| <b>Total sales</b>  | <b>21,070</b>          | <b>3,542</b> | <b>23,434</b> | <b>4,016</b> |
| <b>Operating expenses, net other income from operating activities</b> |                        |              |               |              |
| Exploration & Production  | (5,045)                | (848)        | (5,171)       | (886)        |
| Refining & Wholesale  | (15,325)               | (2,576)      | (17,966)      | (3,078)      |
| Retail  | (4,929)                | (829)        | (5,636)       | (966)        |
| Corporate and Other   | (1,589)                | (267)        | (1,542)       | (264)        |
| Inter-segment eliminations  | 7,228                  | 1,215        | 7,855         | 1,346        |
| <b>Profit from operations</b>   |                        |              |               |              |
| Exploration & Production  | 1,562                  | 263          | 1,623         | 278          |
| Refining & Wholesale  | 399                    | 67           | 170           | 29           |
| Retail  | 65                     | 11           | 33            | 6            |
| Corporate and Other   | (616)                  | (104)        | (852)         | (146)        |
| <b>Total profit from operations</b>                                   | <b>1,410</b>           | <b>237</b>   | <b>974</b>    | <b>167</b>   |
| <b>Share in the profit of associate companies</b>                     | <b>73</b>              | <b>12</b>    | <b>0</b>      | <b>0</b>     |
| <b>Net profit/(loss) from financial activities</b>                    | <b>(337)</b>           | <b>(57)</b>  | <b>131</b>    | <b>22</b>    |
| <b>Profit before taxation</b>   | <b>1,146</b>           | <b>193</b>   | <b>1,105</b>  | <b>189</b>   |
| Current taxation  | (261)                  | (44)         | (221)         | (38)         |
| <b>Profit for the period</b>  | <b>885</b>             | <b>149</b>   | <b>884</b>    | <b>151</b>   |

<sup>1)</sup> In converting HRK financial data into US Dollars, the following average NBH rates were used: for 2005: 5.948 HRK/USD, for 2006: 5.8358 HRK/USD, both calculated as arithmetic mean.

Segmental sales include the sales made between business segments and the costs associated with such sales are therefore included in operating expenses of the business segment making the purchase. Inter-segmental transactions are eliminated to arrive at INA Group sales figures and INA Group operating expenses.



## Income Statement

|  | Year ended 31 December |                               |                    |                               |
|--|------------------------|-------------------------------|--------------------|-------------------------------|
|  | 2005                   | 2005                          | 2006               | 2006                          |
|  | in HRK<br>millions     | USD<br>millions <sup>1)</sup> | in HRK<br>millions | USD<br>millions <sup>1)</sup> |
| <b>Income Statement Data</b>                                     |                        |                               |                    |                               |
| Sales revenue  |                        |                               |                    |                               |
| a) Domestic  | 13,690                 | 2,301                         | 14,797             | 2,534                         |
| b) Exports   | 7,380                  | 1,240                         | 8,637              | 1,479                         |
| <b>Total sales revenue</b>                                       | <b>21,070</b>          | <b>3,541</b>                  | <b>23,434</b>      | <b>4,013</b>                  |
| Income from own consumption of products and services             | 636                    | 107                           | 767                | 131                           |
| Other operating income   | 554                    | 93                            | 606                | 104                           |
| <b>Total operating income</b>                                    | <b>22,260</b>          | <b>3,741</b>                  | <b>24,807</b>      | <b>4,248</b>                  |
| Changes in inventories of finished products and work in progress | 508                    | 85                            | 116                | 20                            |
| Cost of raw materials and consumables                            | (11,024)               | (1,853)                       | (12,146)           | (2,080)                       |
| Depreciation and amortization                                    | (993)                  | (167)                         | (964)              | (165)                         |
| Other material costs   | (2,206)                | (370)                         | (2,386)            | (409)                         |
| Non-material costs   | (1,008)                | (169)                         | (1,459)            | (250)                         |
| Staff costs  | (2,257)                | (379)                         | (2,385)            | (408)                         |
| Cost of other goods sold   | (3,307)                | (556)                         | (4,073)            | (697)                         |
| Impairment charges (net)   | (475)                  | (80)                          | (500)              | (86)                          |
| Provisions for charges and risks                                 | (88)                   | (15)                          | (36)               | (6)                           |
| <b>Operating expenses</b>  | <b>(20,850)</b>        | <b>(3,504)</b>                | <b>(23,833)</b>    | <b>(4,081)</b>                |
| <b>Profit from operations</b>                                    | <b>1,410</b>           | <b>237</b>                    | <b>974</b>         | <b>167</b>                    |
| Share in the profit of associated companies                      | 73                     | 12                            | 0                  | 0                             |
| Finance revenue  | 181                    | 31                            | 620                | 106                           |
| Finance costs  | (518)                  | (87)                          | (489)              | (84)                          |
| <b>Net (loss) / profit from financial activities</b>             | <b>(337)</b>           | <b>(56)</b>                   | <b>131</b>         | <b>22</b>                     |
| <b>Profit for the year before taxation</b>                       | <b>1,146</b>           | <b>193</b>                    | <b>1,105</b>       | <b>189</b>                    |
| Current taxes  | (236)                  | (40)                          | (274)              | (47)                          |
| Deferred taxes   | (25)                   | (4)                           | 53                 | 9                             |
| <b>Profit / (Loss) for the year</b>                              | <b>885</b>             | <b>149</b>                    | <b>884</b>         | <b>151</b>                    |
| Attributable to  |                        |                               |                    |                               |
| Equity holder  | 885                    | 149                           | 883                | 151                           |
| Minority interest  | 0                      | 0                             | 1                  | 0                             |
|  | 885                    | 149                           | 884                | 151                           |
| <b>Earnings per share (in HRK)</b>                               | <b>88.5</b>            |                               | <b>88.3</b>        |                               |

<sup>1)</sup> In converting HRK financial data into US Dollars, the following average NBH rates were used: for 2005: 5.948 HRK/USD, for 2006: 5.8358 HRK/USD, both calculated as arithmetic mean.

## Consolidated Balance Sheet

|   | Year ended 31 December |              |                 |                            |
|---|------------------------|--------------|-----------------|----------------------------|
|   | 2005                   | 2005         | 2006            | 2006                       |
|   | in HRK millions        | USD millions | in HRK millions | USD millions <sup>1)</sup> |
| <b>Consolidated Balance Sheet Data</b>                    |                        |              |                 |                            |
| <b>Assets</b>   |                        |              |                 |                            |
| <b>Non-current assets</b>                                 |                        |              |                 |                            |
| Intangible assets   | 551                    | 88           | 685             | 123                        |
| Property, plant and equipment                             | 12,009                 | 1,928        | 13,312          | 2,386                      |
| Investments in associates and joint ventures              | 58                     | 9            | 57              | 10                         |
| Investments in other companies                            | 54                     | 9            | 48              | 9                          |
| Long-term receivables                                     | 204                    | 33           | 181             | 32                         |
| Derivative financial instruments                          | 225                    | 36           | 251             | 45                         |
| Deferred tax  | 92                     | 15           | 129             | 23                         |
| Available for sale assets                                 | 256                    | 41           | 436             | 78                         |
| <b>Total non-current assets</b>                           | <b>13,449</b>          | <b>2,159</b> | <b>15,099</b>   | <b>2,706</b>               |
| <b>Current assets</b>                                     |                        |              |                 |                            |
| Inventories   | 3,442                  | 552          | 2,838           | 509                        |
| Trade receivables net                                     | 2,304                  | 370          | 2,532           | 454                        |
| Other receivables   | 262                    | 42           | 720             | 129                        |
| Derivative financial instruments                          | 64                     | 11           | 77              | 14                         |
| Other current assets                                      | 57                     | 9            | 53              | 9                          |
| Prepayments and advances                                  | 341                    | 55           | 239             | 43                         |
| Cash with bank and in hand                                | 376                    | 60           | 630             | 113                        |
| <b>Total current assets</b>                               | <b>6,846</b>           | <b>1,099</b> | <b>7,089</b>    | <b>1,271</b>               |
| <b>Total assets</b>                                       | <b>20,295</b>          | <b>3,258</b> | <b>22,188</b>   | <b>3,977</b>               |
| <b>Equity and liabilities</b>                             |                        |              |                 |                            |
| <b>Capital and reserves</b>                               |                        |              |                 |                            |
| Share capital   | 9,000                  | 1,693        | 9,000           | 1,693                      |
| Revaluation reserve                                       | (96)                   | (15)         | 66              | 12                         |
| Other reserves  | 2,390                  | 134          | 2,347           | 341                        |
| Retained earnings / (Deficit)                             | 483                    | 78           | 1,366           | 245                        |
| <b>Equity attributable to equity holder of the parent</b> | <b>11,777</b>          | <b>1,890</b> | <b>12,779</b>   | <b>2,291</b>               |
| Minority interests  | 6                      | 1            | 7               | 1                          |
| <b>Total equity</b>                                       | <b>11,783</b>          | <b>1,891</b> | <b>12,786</b>   | <b>2,292</b>               |
| <b>Non-current liabilities</b>                            |                        |              |                 |                            |
| Long-term loans   | 748                    | 120          | 1,425           | 255                        |
| Other non-current liabilities                             | 162                    | 26           | 153             | 28                         |
| Employee benefits obligation                              | 71                     | 12           | 72              | 13                         |
| Long-term provisions                                      | 1,759                  | 283          | 1,186           | 213                        |
| <b>Total non-current liabilities</b>                      | <b>2,740</b>           | <b>441</b>   | <b>2,836</b>    | <b>509</b>                 |
| <b>Current liabilities</b>                                |                        |              |                 |                            |
| Bank loans and overdrafts                                 | 958                    | 154          | 1,935           | 347                        |
| Current portion of long-term debt                         | 476                    | 76           | 578             | 104                        |
| Accounts payable  | 3,239                  | 520          | 2,900           | 520                        |
| Taxes and contributions                                   | 592                    | 95           | 549             | 98                         |
| Other short-term liabilities                              | 184                    | 30           | 264             | 47                         |
| Accruals and deferred income                              | 167                    | 27           | 157             | 28                         |
| Employee benefits obligation                              | 7                      | 1            | 8               | 1                          |
| Short-term provisions                                     | 149                    | 23           | 175             | 31                         |
| <b>Total current liabilities</b>                          | <b>5,772</b>           | <b>926</b>   | <b>6,566</b>    | <b>176</b>                 |
| <b>Total liabilities</b>                                  | <b>8,512</b>           | <b>1,367</b> | <b>9,402</b>    | <b>1,685</b>               |
| <b>Total equity and liabilities</b>                       | <b>20,295</b>          | <b>3,258</b> | <b>22,188</b>   | <b>3,977</b>               |

## Capital Expenditure

|   | Year ended 31 December |              |
|---|------------------------|--------------|
|   | 2005                   | 2006         |
|   | in HRK mill            | in HRK mill  |
| <b>Exploration &amp; Production:</b>      |                        |              |
| Property, Plant and Equipment             | 1,158                  | 1,544        |
| Intangible Assets                         | 241                    | 203          |
| <b>Total Exploration &amp; Production</b> | <b>1,399</b>           | <b>1,747</b> |
| <b>Refining &amp; Wholesale:</b>          |                        |              |
| Property, Plant and Equipment             | 606                    | 830          |
| Intangible Assets                         | 5                      | 20           |
| <b>Total Refining &amp; Wholesale</b>     | <b>611</b>             | <b>850</b>   |
| <b>Retail:</b>                            |                        |              |
| Property, Plant and Equipment             | 123                    | 117          |
| Intangible Assets                         | 2                      | 0            |
| <b>Total Retail</b>                       | <b>125</b>             | <b>117</b>   |
| <b>Corporate &amp; other:</b>             |                        |              |
| Property, Plant and Equipment             | 116                    | 212          |
| Intangible Assets                         | 86                     | 170          |
| <b>Total Corporate &amp; other</b>        | <b>202</b>             | <b>382</b>   |
| <b>Inter-segment elimination:</b>         |                        |              |
| Property, Plant and Equipment             | (200)                  | (24)         |
| Intangible Assets                         | (5)                    | 0            |
| <b>Total Inter-segment elimination</b>    | <b>(205)</b>           | <b>(24)</b>  |
| <b>Total Capital Expenditure</b>          | <b>2,132</b>           | <b>3,072</b> |
| of which:                                 |                        |              |
| Property, Plant and Equipment             | 1,803                  | 2,679        |
| Intangible Assets                         | 329                    | 393          |

INA—INDUSTRIJA NAFTE d.d, ZAGREB  
 INA GROUP CONSOLIDATED STATEMENT OF CASH FLOW  
 Years ended 31 December 2006 and 2005  
 (All amounts in HRK millions)

|   | 2005           | 2006           |
|---|----------------|----------------|
| Profit for the year before taxation   | 885            | 884            |
| Adjustments for:  |                |                |
| Depreciation and amortisation of non current assets                                       | 993            | 964            |
| Income tax expense recognized in profit   | 261            | 221            |
| Impairment charges (net)  | 475            | 500            |
| Gain on sale of property plant and equipment  | (9)            | (9)            |
| Foreign exchange loss/(gain)  | 42             | (186)          |
| Interest expense (net)  | 147            | 116            |
| Other financial expenses/(income)   | 7              | (42)           |
| Change in provision for charges and risks and other non-cash items                        | (61)           | (50)           |
| <b>Operating cash flow before working capital changes</b>                                 | <b>2,740</b>   | <b>2,398</b>   |
| (Increase)/decrease in inventories  | (1,280)        | 484            |
| Increase in receivables and prepayments   | (631)          | (487)          |
| Decrease in trade and other payables  | 981            | (314)          |
| Decrease in provisions  | (21)           | (147)          |
| Cash generated from operations  | 1,789          | 1,934          |
| Taxes paid  | (540)          | (505)          |
| <b>Net cash inflow from operating activities</b>  | <b>1,249</b>   | <b>1,429</b>   |
| Cash flows used in investing activities   |                |                |
| Purchase of property, plant and equipment   | (1,879)        | (2,679)        |
| Purchase of intangible assets   | (329)          | (393)          |
| Proceeds from sale of non-current assets  | 9              | 20             |
| Purchase of investments in associates and joint ventures and other companies              | (20)           | (2)            |
| Dividends received from companies classified under available for sale and other companies | 5              | 3              |
| Proceeds from sale of investments (Crosco Noble Drilling)                                 | 222            | 0              |
| Interest received   | 3              | 0              |
| Investments and loans to third parties, net   | 9              | 26             |
| <b>Net cash (outflow) from investing activities</b>                                       | <b>(1,980)</b> | <b>(3,025)</b> |
| Cash flows from/(used in) financing activities  |                |                |
| Additional long-term borrowings   | 322            | 1,375          |
| Repayment of long-term borrowings   | (457)          | (428)          |
| Net drawdown /(repayment) of short term borrowings  | 612            | 986            |
| Interest paid on long-term loans  | (48)           | (87)           |
| Other long-term liabilities, net  | (16)           | (9)            |
| Interest paid on short term loans and other financing charges                             | (59)           | (18)           |
| <b>Net cash inflow/(outflow) inflow from financing activities</b>                         | <b>354</b>     | <b>1,819</b>   |
| Net (decrease)/increase in cash and cash equivalents                                      | (377)          | 223            |
| At 1 January  | 714            | 376            |
| Effect of foreign exchange rate changes   | 39             | 31             |
| At 31 December  | 376            | 630            |

INA GROUP CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
 Years ended 31 December 2005 and 2006  
 (All amounts in HRK millions)

Attributable to equity holders of the parent

|   | Share capital | Other reserves | Revaluation reserves | Retained profits / (Accumulated deficit) | Total  | Minority interests | Total  |
|---|---------------|----------------|----------------------|--|--------|--------------------|--------|
| Balance as at 1 January 2005 (restated)   | 9,000         | 2,349          | (141)                | (402)                                    | 10,806 | 6                  | 10,812 |
| Gains/(losses) on available-for-sale investments                                      | 0             | 0              | 45                   | 0  | 45     | 0                  | 45     |
| Exchange differences on translation of the financial statements of foreign operations | 0             | 41             | 0                    | 0  | 41     | 0                  | 41     |
| Net profit recognised directly in equity  | 0             | 41             | 45                   | 0  | 86     | 0                  | 86     |
| Profit for the year   | 0             | 0              | 0                    | 885                                      | 885    | 0                  | 885    |
| Total recognized income and expense for the period                                    | 0             | 41             | 45                   | 885                                      | 971    | 0                  | 971    |
| Balance as at 31 December 2005 (restated)   | 9,000         | 2,390          | (96)                 | 483                                      | 11,777 | 6                  | 11,783 |
| Balance as at 01 January 2006,  | 9,000         | 2,390          | (96)                 | 483                                      | 11,777 | 6                  | 11,783 |
| Gains/(losses) on available-for-sale investments                                      | 0             | 0              | 162                  | 0  | 162    | 0                  | 162    |
| Exchange differences on translation of the financial statements of foreign operations | 0             | (43)           | 0                    | 0  | (43)   | 0                  | (43)   |
| Net profit recognised directly in equity  | 0             | (43)           | 162                  | 0  | 119    | 0                  | 119    |
| Profit for the year   | 0             | 0              | 0                    | 883                                      | 883    | 1                  | 884    |
| Total recognized income and expense for the period                                    | 0             | (43)           | 162                  | 883                                      | 1,002  | 1                  | 1,003  |
| Balance as at 31 December 2006  | 9,000         | 2,347          | 66                   | 1,366                                    | 12,779 | 7                  | 12,786 |

#### Announcements in 2007 and 2006

|                |  |
|----------------|--|
| 27 February 07 | Syndicated Revolving Credit Facility                       |
| 23 February 07 | Notice of analyst meetings                                 |
| 12 February 07 | Sisak Refinery update                                      |
| 12 February 07 | Unaudited Consolidated Profit                              |
| 02 February 07 | New Supervisory Board member                               |
| 30 January     | Notice of meetings   |
| 26 January 07  | Annual Report publication date                             |
| 19 January 07  | Notice of analyst meetings                                 |
| 19 January 07  | Environmental Efforts - Sisak                              |
| 11 January 07  | Annual General Meeting cancellation                        |
| 09 January 07  | Oil discovery at El Alamein                                |
| 02 January 07  | Acquisition of shares by president of INA management board |
| 29 December 06 | Sales of gasoline update                                   |
| 28 December 06 | Notice on Resolution of B&H Competition Council            |
| 28 December 06 | Annual General Meeting invitation                          |
| 22 December 06 | Directorate Change   |
| 15 December 06 | Acquisitions of INA shares                                 |
| 06 December 06 | Announcement of exercise of over-allotment option          |
| 06 December 06 | Stabilisation Notice                                       |
| 05 December 06 | Update - Palmyra field, Syria                              |
| 30 November 06 | Regular shares to be listed on the Official market         |

## SHAREHOLDER STRUCTURE

|  | <i>in number of shares</i> |
|--|----------------------------|
| The Government of Republic of Croatia          | 5.180.367                  |
| MOL  | 2.500.001                  |
| War veterans                                   | 700.000                    |
| Zagrebačka banka d.d./Citibank N.A.            | 368.725                    |
| Free float/Small investors (less than 2% each) | 1.250.907                  |
| <b>Total</b>                                   | <b>10.000.000</b>          |

### Changes in organisation and senior management:

#### Changes in the Supervisory Board

As of 6 June 2006, Mr Božidar Kalmeta ceased to be a member of the Supervisory Board and Mr. Đuro Dečak was appointed as member of the Supervisory Board.

#### Changes in the Management Board

As of 4 May 2006, the mandate to Mr. Ivan Brusić as a Board member – the Executive Director of Retail Services ceased.

As of 5 May 2006, the mandate to Mr. Niko Paulinović as a Board member – the Executive Director of Retail Services started.

#### Changes in corporate organisation

In 2006, two departments of the Finance Function were merged into one, named Subsidiary Coordination. Other were only minor changes at the macro-organisational level whereby some business processes were reorganised or reallocated, and certain organisational units renamed.