INA Group (ZSE: INA – R-A; LSE: HINA; homepage: www.ina.hr) announced its results for Q1-Q3 2008 today. This report contains consolidated financial statements for the period ending 30 September 2008 as prepared by the management in accordance with International Financial Reporting Standards (IFRS).

Financial highlights

INA Group financial results (IFRS)	Q3 2007 HRK mill	Q3 2007 USD mill[1)]	Q3 2008 HRK mill	Q3 2008 USD mill[1)]	Ch. % HRK	Ch. % USD	Q1-Q3 2007 HRK mill	Q1-Q3 2007 USD mill[1)]	Q1-Q3 2008 HRK mill	Q1-Q3 2008 USD mill[1)]	Ch. % HRK	Ch. % USD
Net sales revenues	6,759	1,264	8,729	1,829	29.1	44.7	17,956	3,285	22,272	4,675	24.0	42.3
EBITDA	718	135	719	150	0.1	11.8	2.022	370	2.437	512	20.5	38.3
Operating profit	391	73	197	41	(49.6)	(43.4)	879	161	890	187	1.3	16.2
Net financial gain (expenses)	159	29	(751)	(158)	-	-	71	13	(448)	(94)	-	-
Net income[2]	431	80	(441)	(93)	-	-	727	133	355	75	(51.2)	(44.0)
Operating cash flow	1,103	202	(600)	(126)	-	-	1,247	228	(408)	(86)	-	-

[1)] In converting HRK figures into US Dollars, the following average CNB (NBH) rates were used: for Q1-Q3 2007: 5.4655 HRK/USD, for Q1-Q3 2008: 4.7636 HRK/USD, both calculated as an arithmetic mean.
[2)]INA Group net income attributable to equity holder.

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

INA has increased its net sales revenues by 24 percent to HRK 22.3 billion and its EBITDA by 20 per cent to HRK 2.4 billion compared to the first nine months of 2007. Despite that increase, the net income was reduced to the level of HRK 355 million due to net financial loss. Net financial loss was primarily a consequence of foreign exchange losses based on USD appreciation against HRK in Q3 2008. In the first nine months INA invested over HRK 2.8 billion, mostly in the refinery modernisation programme, where the second phase of Sisak refinery modernisation was started, and in the North Adriatic and Syrian projects. Capital expenditure increased by HRK 1.3 billion in comparison with the first nine months of 2007. Increased crude and natural gas production abroad, a leading wholesale market position on the Group's key markets and a number of new petrol stations – these are the most important features of INA's core activities in the observed period.

Operating profit impacted by price cap and production decrease

In Q1-Q3 2008, the operating profit of INA Group increased by HRK 11 mill to HRK 890 mill (USD 187 mill) in comparison with Q1-Q3 2007. Favourable results coming from higher prices of crude and increased external crude oil sales outside Croatia were offset by the price cap impact[1] and unfavourable effects of decreased hydrocarbon production and lower production and sales of oil products.

- **Exploration & Production**
  In Q1-Q3 2008 the segment's operating profit increased by HRK 314 mill reaching HRK 1,703 mill (USD 358 mill)[2]. The positive effect of higher crude oil prices (Brent FOB increased by 65.5%) was partly offset by lower average daily hydrocarbon production (mainly due to lower production of natural gas on North Adriatic fields, in line with the PSA) and the increased cost of production, losses on sales of imported natural gas (higher volumes and higher import price) and increased Crosco Group's costs due to non-reconciled revenue/cost dynamics (drilling equipment preparation and transportation to new location). In Q3 2008 the operating profit increased by HRK 81 mill in comparison with the same period of 2007, mostly due to increased crude oil prices offset by higher loss on the imported natural gas sales (increased negative price differential between the sales and import price).

- **Refining & Marketing**
  In Q1-Q3 2008 the Refining & Marketing segment had a HRK 99 mill (USD 21 mill) operating loss, which compares unfavourably by HRK 186 mill to the figure in the same period of 2007 as a result of a less favourable product slate, lower refining, lower sale volumes and HRK 56 million higher negative effect of the persisting price cap[3] on the domestic market together with the HRK 294 million negative effect of regulated LPG prices in Q1-Q3 2008 (steps have been taken towards adopting a pricing regulation). The operating loss in Q3 2008 amounted to HRK 223 mill (arising from the HRK 300-million negative result from the decreased value of finished products and WIP inventories), while in the same period of 2007 a profit of HRK 32 mill was recorded.

- **Retail**
  Total sales volume increased by 2.1% in Q1-Q3 2008 and the average throughput per site by 1.5%. In line with INA's retail strategy, 7 new petrol stations were put in operation since 30 September 2007. In Q1-Q3 2008 the segment generated a HRK 101 mill (USD 21 mill) operating loss against HRK 36 mill operating profit in the same period of 2007. The unfavourable result was mainly due to HRK 36 mill lower retail margin (HRK 20 mill positive effect of higher sales volume offset by HRK 56 mill higher negative price cap effect), HRK 31 mill higher negative effect of IAS 36[4], HRK 28 mill provisions for environmental protection and HRK 42 mill higher other costs (effect of the increased number of petrol stations). The segment's profit in Q3 2008 decreased by HRK 3 mill to 16 mill against the same period of 2007 primarily caused by IAS 36 and other unfavourable changes in costs.

- **Corporate and Other[5]**
  Segment's operating results in Q1-Q3 2008 amounted to HRK (613) mill or USD (129) mill, which compares favourably by HRK 20 mill to the same period last year, mainly due to lower controllable costs partly offset by higher staff costs. Q3 2008 operating loss increased by HRK 17 mill.

- **Capital expenditures**
  Capital expenditures increased by HRK 1,298 mill to HRK 2,837 mill (USD 596 mill) in Q1-Q3 2008. Expenditures for intangible assets (HRK 179 mill) increased by 23 % primarily due to increased expenditures for exploration operations. Expenditures on property, plant and equipment (HRK 2,658 mill) increased by 91%, mainly due to higher expenditures on the refinery modernisation programme, development of North Adriatic and Syrian projects, and investments in Crosco Group.

- **Operating cash flow**
  Q1-Q3 2008 Operating Cash Flow before changes in working capital increased by HRK 585 mill to HRK 2,277 mill in comparison with the Q1-Q3 2007 figure. Changes in working capital primarily resulted from the increase in inventories (HRK 1,968 mill) and trade receivables (HRK 639 mill), which decreased the operating cash flow by HRK 2,569 mil. The Company's capital expenditures of HRK 2,837 mill for the period were financed from additional borrowing, up by HRK 3,579 million in comparison with 31 Dec 2007.

---

[1] Price cap on oil products (HRK 218 mill) and opportunity loss on the regulated LPG prices (HRK 294 mill), total HRK 512 mill
[2] The management believes that the price cap is a direct consequence of high crude prices as the regulator considers INA Upstream's profit to be a source for compensation of regulated prices. Had the Upstream's result been adjusted with the effect of the price cap the operating profit would have amounted to HRK 1,191 million
[3] Total effect of the price cap on oil products in Q1-Q3 2008 amounted to HRK 218 mill (HRK 106 mill in the same period 2007) and was equally divided between Refining & Marketing (HRK 109 mill) and Retail (HRK 109 mill). The principle of equal dividing was introduced for the period Q1-Q3 2007.
[4] Negative effect on profit due to decreased profitability of petrol stations.
[5] Corporate and Other stands for safety and security services, maintenance services and other support services

Overview of the environment

The world economy is still experiencing problems started on the US sub-prime mortgage market. Financial markets crisis coupled with increasing inflation and volatile commodities prices across all regions decelerated the world growth leading many of the economies towards recession. Annual global growth projections for 2008 have been revised to moderate 3.9 per cent[6]. Authorities in the US and Europe, in attempt to overcome imbalances across financial, housing and commodities markets, have undertaken stabilisation measures that include liquidity provision, deposit insurance extension and legislation.

Crude oil prices continuously rose during the first half of 2008 peaking at USD 144 per barrel in early July. Financial markets' problems and volatile securities prices directed some of the funds towards commodities markets, thus increasing crude price. Developments in the third quarter, especially the deceleration of economic activity and appreciation of the USD reduced the crude demand and pushed the crude price to USD 86 per barrel in mid September. Brent FOB Med averaged USD 111.11 per barrel for the first nine months, what was 65.5 per cent over the same period 2007 average of USD 67.12. In spite of the sharp fall in August and September the price is still above the 2007 level.

The premium unleaded petrol margin (50ppm) decreased by 21.2 per cent (from 147.4 USD/t in 2007 to 116.2 USD/t in 2008) while the negative margin for fuel oil (of 3.5%) increased by 55.1 per cent (from -200.2 USD/t in 2007 to -310.6 USD/t in 2008). The margin for gas oil EN590 50 PPM increased by 106.3 per cent (from 102.1 USD/t in 2007 to 210.7 USD/t in 2008).
The average refining margin quoted by Platt's (FOB Med - Italy) of 62.4 USD/t was 22.6 per cent higher in the first nine months of 2008 than in the same period last year (50.8 USD/t).

In Q2, the Croatian economy recorded a 3.4% growth, well below the Q1 2008 rate of 4.3%[7]. The slowdown of economic growth is a consequence of lower personal consumption due to declined purchasing power as a result of loan expansion slowdown and a halt in real salary growth. Global trends and developments on the world financial markets could make capital less accessible and more expensive, whereby capital investments would be slowed down and consequently the economic growth.

The consumer prices index during 2008 reflects stronger inflationary pressures caused by changes in global financial and commodity markets. The prices of products and services have risen by 6.4 per cent compared to September 2007 (6.2% up on the annual average)[8]. The consumer prices index recorded its high in July (8.4%) to be on the decrease as early as in August (7.4%) as a result of declining crude oil prices. Food, housing, water and energy prices have predominantly contributed to the price increase during January-September 2008.

The rate of Kuna against the Euro appreciated by 2.2 per cent compared to September 2007 (from 7.28 HRK/EUR to 7.12 HRK/EUR) and 3.6 per cent against the US dollar rate (from 5.14 HRK/USD to 4.96 HRK/USD). On average, the Kuna appreciated against the Euro by 1.2% (from 7.34 HRK/EUR to 7.24 HRK/EUR) and 13.0 per cent against the USD. Changes to the exchange rates in 2008 differ slightly as USD picked up on its value in the last quarter. Since the beginning of the year USD depreciated against the Kuna 0.5 per cent while the Euro depreciated 2.9 per cent.

[6] IMF; World economic outlook; October 2008.
[7] Croatian chamber of economy; Economic trends, Sept 2008.
[8] Croatian bureu of statistics; Consumer price indices; number: 13.1.1/9; 14 october 2008.

Exploration and production*

Segment IFRS results	Q3 2007		Q3 2008		Ch.%		Q1-Q3 2007		Q1-Q3 2008		Ch.%	
in millions	HRK	USD	HRK	USD	HRK	USD	HRK	USD	HRK	USD	HRK	USD
Revenues	1,842	346	2,614	547	41.9	58.4	5,414	991	7,260	1,524	34.1	53.9
Operating profit	523	98	604	126	15.5	29.4	1,389	254	1,703	358	22.6	40.7
CAPEX	251	47	916	192	265.6	308.0	764	140	1,791	376	134.4	169.0

HYDROCARBON PRODUCTION	Q3 2007	Q3 2008	Ch %	Q1-Q3 2007	Q1-Q3 2008	Ch %
Crude oil production (MMbbl)	1.4	1.4	(2.2)	4.2	4.1	(2.0)
Croatia	1.1	1.0	(7.9)	3.3	3.1	(7.0)
Abroad	0.3	0.4	17.9	0.9	1.1	16.3
Condensate (MMbbl)	0.7	0.6	6.7	2.2	2.2	3.1
Natural gas production (Bcf)	20.5	18.6	(9.5)	65.7	56.3	(14.3)
Croatia	19.8	17.8	(9.9)	63.4	53.7	(15.3)
- onshore	9.5	9.5	0.7	31.9	30.2	(5.3)
- offshore	10.3	8.3	(19.7)	31.6	23.6	(25.3)
Syria	0.8	0.8	1.8	2.3	2.5	12.5
Average hydrocarbon prod./day (Mboe/d)	61.4	56.0	(8.8)	65.7	57.5	(12.6)
Natural gas imports (Bcf)	9.1	12.2	33.8	27.3	32.2	17.9
Natural gas sales on domestic market (Bcf)	21.3	21.3	(0.2)	73.2	75.5	3.1

Realised hydrocarbon price	Q3 2007	Q3 2008	Ch %	Q1-Q3 2007	Q1-Q3 2008	Ch %
Average realised crude oil price (USD/bbl)	67.2	117.5	74.9	59.7	102.4	71.4
Average realised total hydrocarbon price (USD/boe)	45.2	69.4	53.6	42.0	57.9	37.7

**Exploration and Production refers to the Upstream of INA, d.d. and following subsidiaries: Crosco Group, INA Naftaplin IE&PL, Guernsey, Adriagas S.r.l. Milano*

Operating profit of Exploration & production segment in Q1-Q3 2008 increased by HRK 314 mill to the amount of HRK 1,703 mill compared to the same period last year, while the profit in Q3 2008 increased by HRK 81 mill to HRK 604 mil. The positive effect of higher average crude oil prices (Brent FOB increased by 54.0% in comparison with Q3 2007) was partly offset by lower daily hydrocarbon production volumes, increased losses on imported natural gas sales (due to increased import prices and volumes) and increased cost of natural gas inventory adjustment.

Hydrocarbon production cost

USD/Boe	Q3 2007	Q3 2008	Q1-Q3 2007	Q1-Q3 2008
Croatia - onshore	12.19	14.91	9.76	13.20
Croatia - offshore	6.78	8.74	6.63	9.50
Angola	0.00	0.00	0.00	0.00
Egypt	11.17	9.91	9.39	12.02
Sirya	15.21	10.21	13.83	7.73
Average	8.83	12.02	8.91	11.97

Hydrocarbon production

Mboe/day	Q3 2007	Q3 2008	Q1-Q3 2007	Q1-Q3 2008
Crude Oil	15.60	15.28	15.50	15.12
Natural Gas condensate	6.60	7.06	7.90	8.11
Natural Gas	39.20	33.66	42.32	34.23
o/w North Adriatic	19.60	14.96	20.33	14.34
Total	61.40	55.99	65.72	57.46

Average daily hydrocarbon production in Q1-Q3 2008 decreased by 12.6% to 57.5 Mboe/day, mainly due to natural production decline on crude oil and natural gas onshore fields and lower production on the North Adriatic gas fields, in line with the PSA.

Average cost of production in Q1-Q3 2008 increased to 11.97 USD/boe primarily as a result of lower production level, stronger Croatian kuna against US dollar (domestic onshore production costs) and higher production costs in the North Adriatic and concessions in Egypt because of a different calculation method (in 2008 all costs were included in the calculation against the roll-over effect applied in the same period 2007.[9]).

Lifting costs in Q1-Q3 2008 amounted to 2.34 USD/boe against 1.81 USD /boe in Q1-Q3 2007.

Regulated natural gas prices on INA's domestic market continued to have a negative impact on the Upstream profit. The average import price of natural gas in Q1-Q3 2008 increased by 21.3% to 2.0499 HRK/Mcm/33.34 MJ (with 13.0% stronger Croatian kuna against US dollar)

Price Differential to Import Prices

in HRK/Mcm/33.34 MJ	Q3 2007	Q3 2008	Q1-Q3 2007	Q1-Q3 2008
Eligible customers' price	(664.44)	(1,067.77)	(753.00)	(921.72)
Tariff customers' price	(531.52)	(1,283.63)	(623.38)	(982.25)
Total price	(618.95)	(1,116.04)	(696.54)	(945.45)

Upstream Capex in Q1-Q3 2008 increased by HRK 1,027 mill to HRK 1,791 mill compared to the same period 2007 (HRK 930 mill tangible and HRK 97 mill intangible assets). Increased investments into tangible assets were mainly caused by higher investments in North Adriatic and Syrian projects development and increased Crosco Group's investments in rigs and equipment.

[9] Costs related to the period were posted in the period, as opposed to the principle applied in the same period 2007 when only received billings were posted in the period.

Refining & Marketing*

Segment IFRS results	Q3 2007		Q3 2008		Ch.%		Q1-Q3 2007		Q1-Q3 2008		Ch.%	
in millions	HRK	USD	HRK	USD	HRK	USD	HRK	USD	HRK	USD	HRK	USD
Revenues	5,114	955	6,050	1,267	18.3	32.8	12,998	2,378	15,662	3,288	20.5	38.3
Operating profit	32	6	(223)	(47)	-	-	87	16	(99)	(21)	-	-
CAPEX	125	24	395	83	215.8	247.7	509	93	879	185	72.7	98.1

REFINERY PROCESSING Kt	Q3 2007	Q3 2008	Ch %	Q1-Q3 2007	Q1-Q3 2008	Ch %
Domestic crude oil	242	168	(30.9)	492	456	(7.3)
Imported crude oil	1,017	897	(11.7)	3,052	2,718	(10.9)
Condensates	38	38	0.5	126	130	3.3
Other feedstock	93	71	(23.6)	276	252	(8.6)
TOTAL REFINERY THROUGHPUT	1,390	1,174	(15.5)	3,945	3,556	(9.9)

REFINERY PRODUCTION Kt	Q3 2007	Q3 2008	Ch %	Q1-Q3 2007	Q1-Q3 2008	Ch %
TOTAL REFINERY PRODUCTION	1,390	1,174	(15.5)	3,945	3,556	(9.9)

REFINED PRODUCT SALES Kt	Q3 2007	Q3 2008	Ch %	Q1-Q3 2007	Q1-Q3 2008	Ch %
Croatia	807	730	(9.6)	2,142	2,108	(1.6)
B&H	202	213	5.3	543	563	3.7
Other markets	320	317	(0.9)	941	710	(24.6)
TOTAL CRUDE OIL PRODUCT SALES	1,330	1,260	(5.2)	3,626	3,381	(6.8)

REFINED PRODUCT SALES Kt	Q3 2007	Q3 2008	Ch %	Q1-Q3 2007	Q1-Q3 2008	Ch %
Motor gasoline	337	336	-	950	811	(14.6)
Gas and heating oils	719	667	(7.3)	1,955	1,901	(2.8)
Other products	274	257	(6.3)	722	668	(7.4)
TOTAL CRUDE OIL PRODUCT SALES	1,330	1,260	(5.2)	3,626	3,381	(6.8)

*Refers to Refining&Marketing INA. d.d. and following subsidiaries: Maziva Zagreb, Proplin, Crobenz, Osijek Petrol, Interlna Ljubljana, INA BH Sarajevo, Holdina Sarajevo, INA Hungary, FPC London, INA -Crna Gora, INA Beograd, INA Kosovo, Interina Holding London, Holdina Guernsey.

Operating loss of R&M segment in Q1-Q3 2008 amounted to HRK 99 mill compared to the same period 2007 when HRK 87 mill profit was recorded. In Q3 2008 the segment had HRK 223 mill loss against HRK 32 million profit in Q3 2007. The effect of 62% higher average refining margin[10] was offset by the negative effect of unfavourable product slate, lower sales volumes, higher negative effect of the price cap[11], together with the negative effect of regulated LPG prices[12].The result was additionally negatively influenced by the unplanned shutdown of Rijeka Refinery in September (malfunction on Topping 3) which caused a significant decrease in the level of finished products and WIP inventories (94 kt or HRK 300 mill). Market needs were satisfied with the increased import.

Total sales volumes in Q1-Q3 2008 decreased by 6.8% in comparison with the same period 2007 amounting to 3,381 kt, mostly due to lower other export. Sales of motor gasoline and diesel (EURO IV quality) increased by 1.1% (11 kt) and the insufficient own production was supplemented by the increased import.

INA's strong market position continues in spite of a market share decline in the domestic wholesale market from 78.1% to 74.4% in Q1-Q3 2008 in comparison with the same period 2007, while the share on the BiH market increased from 41.8% to 42.3%. INA's main objective on other markets was profit optimization.

Segment's Capex in Q1-Q3 2008 increased by HRK 370 million to HRK 879 million, in line with the dynamic plan. Following the refinery modernization program in Sisak refinery the construction of HDS FCC unit is in progress and the construction permit for Isomerisation unit has been requested. Also, as part of the second phase, the technical documentation for procurement of MHC/HDS plant reactor has been delivered and the approval was obtained for the beginning of final stage of negotiations with the selected bidder with the aim to conclude the Contract on base project and documentation drafting for Coking plant. In Rijeka refinery - designing and procurement of equipment for Sulphur Recovery Unit, Hydrocracking Complex and Hydrogen Generation Unit are in progress.

[10] Average refining margin calculated based on INA's sales according to Platt's (FOB Med) quotations.

[11] Quarterly effect on the price cap in Q3 2008 amounted to HRK 28 mill against HRK 5 mill in the same period 2007 (HRK 109 mill against HRK 53 mill in Q1-Q3). The principle of equal dividing was introduced for Q1-Q3 2007, based on which the segment was was charged with a lower amount in Q3 2007.

[12] The quarterly effect of regulated LPG prices amounted to HRK 112 mill (HRK 294 mill for the period).

INDUSTRIJA NAFTE, d.d.

Retail*

Segment IFRS results	Q3 2007		Q3 2008		Ch.%		Q1-Q3 2007		Q1-Q3 2008		Ch.%	
in millions	HRK	USD	HRK	USD	HRK	USD	HRK	USD	HRK	USD	HRK	USD
Revenues	1,834	342	2,678	561	46.0	64.2	4,366	799	6,557	1,376	50.2	72.3
Operating profit	19	4	16	3	(15.8)	(3.6)	36	7	(101)	(21)	-	-
CAPEX	27	5	47	10	75.4	88.1	166	30	107	22	(35.5)	(26.0)

Key Segment operating data

REFINED PRODUCT RETAIL SALES Kt	Q3 2007	Q3 2008	Q1-Q3 2007	Q1-Q3 2008
Motor gasoline	141	142	352	365
Gas and heating oils	200	226	513	590
LPG	7	15	19	41
Other products	1	1	3	3
TOTAL OIL PRODUCT RETAIL SALES Kt	348	385	886	1,000

* Refers to Retail INA d.d. and Petrol Rijeka. As of January 1, 2008 also including retail of subsidiaries: Proplin, Crobenz, Osijek Petrol, Interina Ljubljana, INA BH Sarajevo, Holdina Sarajevo, INA - Crna Gora

** Changes were not calculated because figures are not comparable with the same period last year which contains only INA.d.d. retail quantities

In Q1-Q3 2008 the **Retail segment** generated **operating loss** of HRK 101 mill (against HRK 36 mill operating profit in Q1-Q3 2007). In Q3 2008 HRK 16 mill of operating profit was generated which is HRK 3 mill below the same period 2007. The unfavourable result was mainly due to HRK 5 mill higher negative effect of IAS 36[13] and HRK 6 mill higher other costs (the effect of higher number of petrol stations), partly offset by HRK 8 mill higher retail margin (HRK 2 mill from the positive effect of increased sales volumes and HRK 6 mill lower negative effect of the remaining price cap, because the negative effect was equally divided between R&M[14] and Retail segments).

As at 30 September 2008 the segment operated with 485 petrol stations (of which 436 in Croatia, 43 in BiH and 6 in Slovenia). In comparison with the same period last year that is an increase by 7 petrol stations (5 in Croatia and 2 in BiH).

Total sales volumes increased by 12.8% (114 kt), however, if we exclude subsidiary retail in Q1-Q3 2008[15] both the sales volumes and the average throughput per site increased by 2.1% and 1.5%, respectively in comparison with the Q1-Q3 2007 period.

Diesel and motor gasoline sales volumes (excluding subsidiaries) increased by 2.0% (of which diesel sales increased by 6.0%, while motor gasoline sales decreased by 3.7%). Heating oil sales volume decreased by 13.0%. Increase in sales of lubricants and other products by 20.0% is the result of 23.2% higher sale of LPG, 3.0% higher sale of industrial lubricants and 6.8% lower sale of motor car lubricants, due to strengthening of the competition.

Shop sales revenues (excluding subsidiaries) increased by 9.9% in Q1-Q3 2008 and the **gross margin of other products per litre of fuel sold** on petrol stations increased by 11.4% in comparison with Q1-Q3 2007 results.

CAPEX in Q1-Q3 2008 amounted to HRK 107 mill in comparison with HRK 166 mill in Q1-Q3 2007. The total of HRK 25 mill was invested into the construction of new stations and HRK 49 mill was invested into petrol stations' reconstructions, in line with the adopted Retail strategy.

[13] Negative effect on profit compared to the same period 2007 due to decreased profitability of petrol stations.

[14] Quarterly effect on the price cap in Q3 2008 amounted to HRK 28 mill against HRK 34 mill in the same period 2007 (HRK109 mill against HRK 53 mill in Q1-Q3). The principle of equal dividing was introduced for Q1-Q3 2007, based on which the segment was charged with a higher amount in Q3 2007.

[15] Due to possible comparison of the periods.

INDUSTRIJA NAFTE, d.d.

Financial overview

Operations

In Q1-Q3 2008, INA Group net sales revenues[16] increased by 24% amounting to HRK 22.3 billion mainly due to higher sales prices of crude, crude oil products and natural gas, and increased crude oil sales volumes (16%), offset by lower sales volumes of crude oil products (8%), total natural gas sale (5%) and the effect of weaker US dollar against the Croatian kuna in comparison with Q1-Q3 2007.

The non-application of the maximum price for retail products according to the effective formula (price cap) had a negative impact of HRK 218 million on the result in Q1-Q3 2008 (HRK 112 million up on the same period 2007) and together with the newly identified HRK 294 mill negative effect from the regulated LPG prices in Q1-Q3 2008 resulted with HRK 512 million loss of opportunity.

The cost of raw materials, consumables and energy increased by 22% in Q1-Q3 2008 in comparison with the same period last year, of which the cost of crude oil increased by 31% due to 47 % higher average price of imported crude oil for INA's refineries (the average price of Brent FOB increased by 65.5%) with 11% lower refining. Increased value of finished product inventories and WIP inventories in the total of HRK 275 mill decreased the costs incurred in current period, as opposed to the increased costs in the same period 2007 (due to decreased value of inventories by HRK 109 mill). The cost of other goods sold increased by 51% to HRK 4.4 billion as a result of 148% higher import of refined products (mostly EURO IV quality diesel), 17% higher volume of imported gas sold and higher prices. Service costs increased by HRK 439 million to HRK 3.2 billion mainly due to increased Crosco, d.o.o. costs (Rotary costs – company merged at the end of 2007, cost of drilling equipment preparation and transportation to Mexico), increased excess recovery petroleum, higher costs for ENI's tax and higher royalties for oil and gas production, due to increased revenues. Depreciation increased by 16% to HRK 1.0 billion, mostly due to capitalized finished projects. Adjustments and provisions increased by HRK 262 mil to HRK 513 mill (of which HRK 111 mill for value adjustment of natural gas inventories, HRK 68 mill adjustment of negative well in Syria and HRK 49 mill for provisions related to environment protection). Total staff costs increased by 15% due to average gross salary increase of 9.4% (INA d.d. 8.2% and subsidiaries 12.7%), higher remuneration to experts working abroad and increased number of employees (primarily due to Rotary acquisition).

The net financial loss for Q1-Q3 2008 amounted to HRK 448 million (in comparison with HRK 71 million gain in Q1-Q3 2007). The unfavourable result was mostly due to HRK 476 mill higher net exchange losses (mostly for long term loans – HRK 249 mill and trade payables HRK 279 mill) as a result of increased indebtedness and US dollar appreciation in Q3 2008. Interest payable for long term loans in the total of HRK 98 mill are HRK 10 mill lower compared to the same period 2007, while interest payable for short term loans decreased by HRK 26 mill to HRK 63 mill, mainly due to lower margins and libor.

The calculated corporate income tax for Q1-Q3 2008 decreased by HRK 134 million in comparison with Q1-Q3 2007 to HRK 86 million due to lower profit.

Balance sheet

At the end of September 2008 total assets amounted to HRK 28.3 billion representing a 13% increase compared to the figure as at 31 December 2007. Non-current tangible and intangible assets increased by 11% mainly as the result of investments into exploration and development operations in the North Adriatic area, Egypt and Syria. Goodwill and investments in associates and joint ventures increased by HRK 19 mill mainly due to increased goodwill (acquisition of share in Energopetrol, d.d. Sarajevo). The decrease in assets available for sale in the amount of HRK 289 mill was mainly the result of a decrease in market value of Janaf d.d. shares. Deferred tax increased by HRK 121 mill, of which HRK 58 mill relating to Janaf d.d. (assets available for sale).
Inventories increased by 55% to HRK 4.8 billion primarily due to higher volumes and inventory prices of imported crude oil, finished products from import and natural gas, and increased value of finished products and WIP inventories from own production (lower volumes with higher prices). Net trade receivables of HRK 3.6 billion as at 30 September 2008 increased by 16% compared to the figure at the end of 2007.

As at 30 September 2008 INA Group's total liabilities increased by 30% to HRK 14.6 billion, mainly as a result of increased long and short-term loans (total indebtedness amounted to HRK 8.2 billion, as opposed to HRK 4.9 billion as at December 31, 2007), partly offset by the decreased accounts payable (by HRK 104 mill). The loans were primarily utilized for procurement of crude oil and investing in the Company's Capex programme. Long-term and short-term provisions in the amount of HRK 1.6 billion increased by HRK 100 million, mainly due to HRK 93 mill higher cost of ENI's tax.
At the end of Q3 2008 total net debt of INA Group amounted to HRK 7.8 billion in comparison with HRK 4.2 billion at the end of 2007, while the net gearing ratio[17] increased from 23.5% at the end of year 2007 to 36.4% at the end of Q3 2008. Increased indebtedness combined with lower net profit negatively influenced the gearing ratio.

---

[16] External sale to third parties out of the INA group
[17] Net debt to net debt plus shareholders' equity including minority interest

Cash flow

In Q1-Q3 2008 the operating cash flow before changes in working capital reached HRK 2,277 mill which is HRK 585 above the Q1-Q3 2007 figure, primarily as a result of HRK 415 mill higher EBITDA. The increase in working capital in the amount of HRK 2,569 mill, results mainly from the increase in inventories of HRK 1,968 mill primarily as a result of the increase in inventories of crude oil, imported derivatives and natural gas due to increased volumes and prices, and increased value of finished products and WIP - lower quantities offset by higher prices) and HRK 639 mill increased receivables, mostly due to increased prices of derivatives. Trade and other payables remained flat. Corporate taxes paid in Q1-Q3 2008 amounted HRK 116 mill (higher paid tax than calculated for the period is caused by higher profit in the 2007 which was the base for payments in this year).

Net cash outflow for investing activities of HRK 2,848 mill increased by HRK 1,182 mill in comparison with the net cash used in Q1-Q3 2007 period. Insufficient amount of resources necessary for investment expenditures was funded from the increased INA's net indebtedness by HRK 3,579 mill in comparison with 31 December 2007.

INA Group Summary Segmental Results of Operations

Year ended 31 December 2007 HRK mill		Q3 2007 HRK mill	Q3 2008 HRK mill	Ch. %	Q1-Q3 2007 HRK mill	Q1-Q3 2008 HRK mill	Ch. %
	Sales						
8,133	Exploration & Production	1,842	2,614	42	5,414	7,260	34
18,764	Refining & Marketing	5,114	6,050	18	12,998	15,662	20
5,850	Retail	1,834	2,678	46	4,366	6,557	50
684	Corporate and Other	223	274	23	696	685	(2)
(7,583)	Inter-segment revenue	(2,254)	(2,943)	31	(5,518)	(7,948)	44
25,848	Total sales	6,759	8,673	28	17,956	22,216	24
	Operating expenses, net other income from operating activities						
(6,088)	Exploration & Production	(1,319)	(2,010)	52	(4,025)	(5,557)	38
(18,705)	Refining & Marketing	(5,082)	(6,273)	23	(12,911)	(15,761)	22
(5,940)	Retail	(1,815)	(2,662)	47	(4,330)	(6,658)	54
(1,678)	Corporate and Other	(406)	(474)	17	(1,329)	(1,298)	(2)
7,583	Inter-segment eliminations	2,254	2,943	31	5,518	7,948	44
	Profit from operations						
2,045	Exploration & Production	523	604	15	1,389	1,703	23
59	Refining & Marketing	32	(223)	-	87	(99)	-
(90)	Retail	19	16	(16)	36	(101)	-
(994)	Corporate and Other	(183)	(200)	9	(633)	(613)	(3)
1,020	Total profit from operations	391	197	(50)	879	890	1
0	Share in the profit of associate companies	0	0		0	0	
113	Net profit/(loss) from financial activities	159	(751)	-	71	(448)	-
1,133	Profit before taxation	550	(554)	-	950	442	(53)
(262)	Current taxation	(118)	113	-	(220)	(86)	(61)
871	Profit for the period	432	(441)	-	730	356	(51)

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

INDUSTRIJA NAFTE, d.d.

Income Statement

Year ended 31 December 2007 HRK mill		Q3 2007 HRK mill	Q3 2008 HRK mill	Ch. %	Q1-Q3 2007 HRK mill	Q1-Q3 2008 HRK mill	Ch. %
	Income Statement Data						
	Sales revenue						
16,467	a) Domestic	4,615	5,344	16	12,101	14,055	16
9,381	b) Exports	2,144	3,385	58	5,855	8,217	40
25,848	Total sales revenue	6,759	8,729	29	17,956	22,272	24
695	Income from own consumption of products and services	184	131	(29)	440	300	(32)
619	Other operating income	104	66	(37)	374	406	9
27,162	Total operating income	7,047	8,926	27	18,770	22,978	22
(28)	Changes in inventories of finished products and work in progress	(102)	(238)	133	(109)	275	-
(13,029)	Cost of raw materials and consumables	(3,476)	(4,201)	21	(9,180)	(11,164)	22
(1,302)	Depreciation and amortization	(305)	(366)	20	(892)	(1,034)	16
(3,817)	Cost services	(1,088)	(1,141)	5	(2,719)	(3,158)	16
(2,581)	Staff costs	(627)	(721)	15	(1,852)	(2,131)	15
(4,904)	Cost of other goods sold	(1,036)	(1,906)	84	(2,888)	(4,363)	51
(381)	Impairment charges (net)	(21)	(144)	-	(229)	(426)	86
(100)	Provisions for charges and risks	(1)	(12)	-	(22)	(87)	295
(26,142)	Operating expenses	(6,656)	(8,729)	31	(17,891)	(22,088)	23
1,020	Profit from operations	391	197	(50)	879	890	1
	Share in the profit of associated companies						
746	Finance revenue	390	(332)	-	735	265	(64)
(633)	Finance costs	(231)	(419)	81	(664)	(713)	7
113	Net (loss) / profit from financial activities	159	(751)	-	71	(448)	-
1,133	Profit for the year before taxation	550	(554)	-	950	442	(53)
(262)	Current taxes	(85)	82	-	(159)	(150)	(6)
	Deferred taxes	(33)	31	-	(61)	64	-
871	Profit / (Loss) for the year	432	(441)	-	730	356	(51)
	Attributable to						
869	Equity holder	431	(441)	-	727	355	(51)
2	Minority interest	1	0	-	3	1	(67)
871		432	(441)	-	730	356	(51)
86.9	Earning per share (in HRK)	43.1	(44.1)	-	72.7	35.5	(51)

Consolidated Balance Sheet

Year ended 31 December 2007 HRK mill		30 September 2007 HRK mill	30 September 2008 HRK mill	Ch. %
	Assets			
	Non-current assets			
661	Intangible assets	724	582	(20)
14,891	Property. plant and equipment	13,988	16,679	19
163	Goodwill	93	197	112
124	Investments in associates and joint ventures	97	85	(12)
62	Investments in other companies	63	86	37
177	Long-term receivables	179	180	1
226	Derivative financial instruments	225	107	(52)
37	Deferred tax	30	158	-
656	Available for sale assets	784	367	(53)
16,997	Total non-current assets	16,183	18,441	14
	Current assets			
3,123	Inventories	3,304	4,836	46
3,072	Trade receivables net	2,960	3,561	20
674	Other receivables	382	733	92
97	Derivative financial instruments	86	93	8
50	Other current assets	59	53	(10)
183	Prepayments and advances	122	145	19
720	Cash with bank and in hand	629	387	(38)
7,919	Total current assets	7,542	9,808	30
24,916	Total assets	23,725	28,249	19
	Equity and liabilities			
	Capital and reserves			
9,000	Share capital	9,000	9,000	0
229	Revaluation reserve	332	(2)	-
2,301	Other reserves	2,315	2,303	(1)
2,104	Retained earnings / (Deficit)	1,961	2,309	18
13,634	Equity attributable to equity holder of the parent	13,608	13,610	0
9	Minority interests	10	10	0
13,643	Total equity	13,618	13,620	0
	Non-current liabilities			
3,130	Long-term loans	3,129	4,144	32
144	Other non-current liabilities	147	140	(5)
91	Employee benefits obligation	81	103	27
1,406	Long-term provisions	1,396	1,425	2
4,771	Total non-current liabilities	4,753	5,812	22
	Current liabilities			
1,664	Bank loans and overdrafts	1,191	3,935	230
129	Current portion of long-term debt	79	90	14
3,532	Accounts payable	2,878	3,428	19
648	Taxes and contributions	772	706	(9)
269	Other short-term liabilities	233	292	25
198	Accruals and deferred income	131	224	71
15	Employee benefits obligation	13	14	8
47	Short-term provisions	57	128	125
6,502	Total current liabilities	5,354	8,817	65
11,273	Total liabilities	10,107	14,629	45
24,916	Total equity and liabilities	23,725	28,249	19

INDUSTRIJA NAFTE, d.d.

Capital Expenditure

2007		Q3 2007	Q3 2008	Q3 Ch. %	Q1-Q3 2007	Q1-Q3 2008	Q1-Q3 Ch. %
HRK mill		HRK mill	HRK mill		HRK mill	HRK mill	
	Exploration & Production:						
1,364	Property, Plant and Equipment	238	844		687	1,617	
195	Intangible Assets	13	72		77	174	
1,559	Total Exploration & Production	251	916	265.6	764	1,791	134.4
	Refining & Marketing						
978	Property, Plant and Equipment	124	393		503	875	
7	Intangible Assets	1	2		6	4	
985	Total Refining & Marketing	125	395	215.8	509	879	72.7
	Retail:						
211	Property, Plant and Equipment	26	47		165	106	
1	Intangible Assets	1	0		1	1	
212	Total Retail	27	47	75.4	166	107	(35.5)
	Corporate & other:						
69	Property, Plant and Equipment	13	16		39	60	
71	Intangible Assets	8	0		61	0	
140	Total Corporate & other	22	16	(26.7)	100	60	(40.0)
	Inter-segment elimination:						
	Property, Plant and Equipment						
	Intangible Assets						
	Total Inter-segment elimination						
2,896	Total Capital Expenditure	424	1,374	223.9	1,539	2,837	84.3
	of which:						
2,622	Property, Plant and Equipment	400	1,300		1,394	2,658	
274	Intangible Assets	24	74		145	179	

INA—INDUSTRIJA NAFTE d.d. ZAGREB
INA GROUP CONSOLIDATED STATEMENT OF CASH FLOW
Period ended 30 September 2007 and 2008
(All amounts in HRK millions)

31.12. 2007		Q3 2007	Q3 2008	Q3 Ch. %	Q1-Q3 2007	Q1-Q3 2008	Q1-Q3 Ch. %
871	Profit for the year	432	(441)	-	730	356	(51)
	Adjustments for:						
1,302	Depreciation and amortisation of non-current assets	305	366	20	892	1,034	16
262	Income tax expenses recognized in profit	(4)	(114)	-	98	85	(13)
381	Impairment charges (net)	21	144	-	229	426	86
(9)	Gain on sale of property plant and equipment	0	0	0	0	(9)	-
(17)	Gain on sale of shares or stakes						
(402)	Foreign exchange loss/(gain)	(263)	551	-	(394)	106	-
333	Interest expense (net)	91	86	(5)	245	212	(13)
45	Other financial expenses/(income)	(68)	103	-	(65)	120	-
(130)	Change in provision for charges and risks and other non-cash items	(9)	136	-	(43)	(54)	26
2,636	Operating cash flow before working capital changes	505	832	65	1,692	2,277	35
	Working capital						
(448)	(Increase)/decrease in inventories	252	(1,066)	-	(603)	(1,968)	226
(479)	Increase in receivables and prepayments	231	(396)	-	(52)	(639)	-
860	Decrease in trade and other payables	21	135	-	323	(8)	-
15	Decrease in provisions	100	(77)	-	5	46	-
2,584	Cash generated from operations	1,109	(572)	-	1,365	(292)	-
(168)	Taxes paid	(6)	(28)	367	(118)	(116)	(2)
2,416	Net cash inflow from operating activities	1,103	(600)	-	1,247	(408)	-
	Cash flows used in investing activities						
(2,354)	Purchase of property, plant and equipment	(400)	(1,300)	225	(1,394)	(2,658)	91
(274)	Purchase of intangible assets	(25)	(74)	196	(145)	(179)	23
13	Proceeds from sale of non-current assets	0	0	0	0	14	0
	Purchase of investment in Energopetrol	0	0	0	(133)	0	-
(279)	Purchase of investments in associates and joint ventures and other companies	0	0	0	0	0	0
2	Dividends received from companies classified under available for sale and other companies	0	0	0	2	0	-
	Proceeds from sale of property, plant and equipment	0	0	0	0	0	0
	Proceeds from sale of investments	0	0	0	13	0	-
	Interest received	0	0	0	0	0	0
8	Investments and loans to third parties, net	(9)	(6)	(33)	(9)	(25)	178
(2,884)	Net cash (outflow) from investing activities	(434)	(1,380)	218	(1,666)	(2,848)	71
	Cash flows from/(used in) financing activities						
3,700	Additional long-term borrowings	530	941	78	3,695	1,061	(71)
(2,360)	Repayment of long-term borrowings	(9)	(29)	222	(2,252)	(93)	(96)
(300)	Net drawdown /(repayment) of short term borrowings	(997)	1,148	-	(737)	2,269	-
(152)	Interest paid on long-term loans	(34)	(34)	(0)	(109)	(98)	(10)
(9)	Dividends paid	1	0	-	(6)	(4)	(33)
(131)	Other long-term liabilities, net	(131)	(1)	(99)	(131)	(150)	15
(172)	Interest paid on short term loans and other financing charges	14	(28)	-	(46)	(68)	48
576	Net cash inflow/(outflow) from financing activities	(626)	1,997	-	414	2,917	-
108	Net (decrease)/increase in cash and cash equivalents	43	17	(61)	(5)	(339)	-
630	At beginning of period	581	368	(37)	630	720	14
(18)	Effect of foreign exchange rate changes	5	2	(60)	4	6	50
720	At the end of period	629	387	(39)	629	387	(39)

INDUSTRIJA NAFTE, d.d.

INA GROUP CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the period ended 30 September 2007 and 2008
(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 equity
Balance as at 1 January 2007 (restated)	9,000	2,347	66	1,366	12,779	7	12,786
Gains/(losses) on available-for-sale investments	0	0	266	0	266	0	266
Dividends payable	0	0	0	(132)	(132)	0	(132)
Exchange differences on translation of the financial statements of foreign operations	0	(32)	0	0	(32)	0	(32)
Net profit recognised directly in equity	0	(32)	266	(132)	102	0	102
Profit for the year	0	0	0	727	727	3	730
Total recognized income and expense for the period	0	(32)	266	595	829	3	832
Balance as at 30 September 2007	9,000	2,315	332	1,961	13,608	10	13,618

	Share capital	Other reserves	Revaluation reserves	Retained profits / (Accumulated deficit)	Total	Minority interests	Total equity
Balance as at 01 January 2008.	9,000	2,301	229	2,104	13,634	9	13,643
Gains/(losses) on available-for-sale investments	0	0	(231)	0	(231)	0	(231)
Dividends payable	0	0	0	(150)	(150)	0	(150)
Exchange differences on translation of the financial statements of foreign operations	0	2	0	0	2	0	2
Net profit recognised directly in equity	0	2	(231)	(150)	(379)	0	(379)
Profit for the year	0	0	0	355	355	1	356
Total recognized income and expense for the period	0	2	(231)	205	(24)	1	(23)
Balance as at 30 September 2008	9,000	2,303	(2)	2,309	13,610	10	13,620

Announcements in 2008

30 October 08	Changes on the Supervisory Board
17 October 08	EGM cancelled
14 October 08	Regional capital markets conference participation
13 October 08	Notification of disposal of INA-INDUSTRIJA NAFTE d.d. shares
29 September 08	INA - INDUSTRIJA NAFTE, d.d. to participate in the Erste Bank investor conference
15 September 08	Board's opinion on the voluntary takeover offer
10 September 08	Extraordinary Shareholders' Assembly - 29 October 2008
02 September 08	MOL's voluntary takeover offer
14 August 08	H1 2008 Flash Report
12 August 08	Notice of Results and a conference call
15 July 08	Gas supply contract for Kutina
14 July 08	Takeover bid announcement notion
11 July 08	Gas supply contract signed
19 June 08	Supervisory Board meeting
11 June 08	Dividend payout
6 June 08	Lower refinery throughput
16 May 08	Second phase of Sisak oil refinery modernisation initiated
15 May 08	Q1 2008 Flash Report
15 May 08	General Meeting held
13 May 08	Notice of Q1 2008 Results and a conference call
15 April 08	Notice of a meeting
9 April 08	Exploration contract in Iran signed
4 April 08	Annual General Meeting of INA–INDUSTRIJA NAFTE, d.d. Zagreb
3 April 08	Extraordinary General Meeting held
31 March 08	INA Group announced its results for FY 2007
27 March 08	Notice of Results and a conference call
18 March 08	Notice of meeting with an analyst on 19 March 2008
13 March 08	Notice of meeting with an investor on 14 March 2008
12 March 08	Management Board and Supervisory Board resolutions
7 March 08	Management Board and Supervisory Board meetings announcement
28 February 08	Production start-up in Syria
20/21 February 08	Extraordinary shareholders' assembly
19 February 08	Meeting with financial analysts
15 February 08	Unaudited consolidated profit for the year ending 31 December 2007
8 February 08	Meeting with financial analysts
24 January 08	Acquisition of shares

SHAREHOLDER STRUCTURE

	31.12.06.	31.03.07.	30.06.07.	30.09.07.	31.12.07.	31.03.2008.	30.06.2008.	30.09.2008.
The Government of Republic of Croatia	5,180,367	5,180,367	5,180,367	5,180,367	4,484,918	4,483,787	4,483,552	4,483,552
MOL	2,500,001	2,500,001	2,500,001	2,500,001	2,500,001	2,500,001	2,500,001	2,500,001
The Fund of Croatian War Veterans of Homeland War and their Family Members	700,000	700,000	700,000	700,000	700,000	700,000	700,000	700,000
Societe generale-splitska banka d,d,/ Allianz ZB d,o,o, for AZ obligatory pension fund	38,933	63,517	71,919	79,006	122,699	150,783	245,214	306,011
Zagrebačka banka d,d,/Citibank N,A,(custodian/depositary for GDR)	368,725	253,414	233,345	215,354	204,307	203,263	122,996	99,825
Other private and institutional investors	1,211,974	1,302,701	1,314,368	1,325,272	1,988,075	1,962,166	1,948,237	1,910,611
Total	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000

Note: The Voluntary Public Takeover Offer made by MOL Hungarian Oil and Gas Plc to INA – INDUSTRIJA NAFTE d.d. shareholders was closed on 17 October 2008 when the Central Depository Agency reposted the shares deposited with the Agency during the voluntary takeover offer to the account of the Offeror, MOL Hungarian Oil and Gas Plc. and made the disbursements to previous shareholders. INA, d.d. shareholder structure after above transaction is given below.

Sahreholders structure as at 17 Oct 2008	Nuber of shares
MOL Plc	4,715,538
Government of Republic of Croatia	4,483,552
Institutional and private investors	800,910

Changes in organisation, Management Board or Supervisory Board

At its meeting held on 29 October 2008 the Supervisory Board of INA-INDUSTRIJA NAFTE, d.d. resolved that Mr Damir Polančec be elected chairman of the Supervisory Board to replace Mr Ivan Šuker.

There were no changes on the Management Board in Q3.

Changes in organisation

As resolved by the Management Board, Mr Ivo Radić has been relieved of his duty as the director of Commercial Operations and Marketing, and Mrs Lidija Gregurek has been appointed director.