INA - INDUSTRIJA NAFTE d.d. Zagreb

and INA GROUP

Consolidated and unconsolidated Financial Statements and Notes for the year ended 31 December 2007 Together with Independent Auditors' Report

Contents

Responsibility for the financial statements

Pursuant to the Croatian Accounting Law, the Management Board is responsible for ensuring that financial statements are prepared for each financial year in accordance with International Financial Reporting Standards ("IFRS") as published by the International Accounting Standards Board ("IASB"), which give a true and fair view of the state of affairs and results of the Group for that period.

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

In preparing those financial statements, the responsibilities of the Board include ensuring that:

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

The Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Group and must also ensure that the financial statements comply with the Croatian Accounting Law. The Board is also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf of the Group:

Tomislav Dragičević, ScD, President of the Management Board

INA - Industrija Nafte d.d. Zagreb
Avenija Većeslava Holjevca 10
10000 Zagreb
Republic of Croatia

11 March 2008

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Independent Auditors' Report

To the Shareholders of INA - Industrija Nafte d.d. Zagreb

We have audited the accompanying consolidated and unconsolidated financial statements of INA - Industrija Nafte d.d. Zagreb ("the Company") and its subsidiaries ("the Group"), set out on pages 4 to 110, which comprise the consolidated and unconsolidated balance sheets as at 31 December 2007, and the consolidated and unconsolidated income statements, consolidated and unconsolidated statements of changes in equity and consolidated and unconsolidated cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's and the Group's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company and the Group as of 31 December 2007, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte d.o.o.

Branislav Vrtačnik, Certified Auditor

Zagreb, Republic of Croatia

12 March 2008

INA Group Consolidated Income Statement

For the year ended 31 December 2007

(all amounts in HRK millions)

	Notes	2007	2006
Sales revenue			
a) domestic		16,467	14,797
b) exports		9,381	8,637
Total sales revenue	3	**25,848**	**23,434**
Income from own consumption of products and services		695	767
Other operating income		619	606
Total operating income		**27,162**	**24,807**
Changes in inventories of finished products and work in progress		(28)	116
Cost of raw materials and consumables		(13,029)	(12,146)
Depreciation and amortisation	4	(1,302)	(964)
Other material costs		(2,676)	(2,386)
Service costs		(1,141)	(1,459)
Staff costs	5	(2,581)	(2,385)
Cost of other goods sold		(4,904)	(4,073)
Impairment and charges		(381)	(500)
Provision for charges and risks (net)		(100)	(36)
Operating expenses		**(26,142)**	**(23,833)**
Profit from operations		**1,020**	**974**
Investment revenue	6	746	620
Finance costs	7	(633)	(489)
Net profit from financial activities		**113**	**131**
Profit before tax		**1,133**	**1,105**
Income tax expense	8	(262)	(221)
Profit for the year		**871**	**884**

(all amounts in HRK millions)

	Notes	2007	2006
Attributable to:			
Equity holders of the parent		**869**	**883**
Minority interest		2	1
		871	**884**
Basic and diluted earnings per share (in HRK)	9	**86.9**	**88.3**

Signed on behalf of the Group on 11 March 2008 by:

Zalán Bács	Tomislav Dragičević
Vice President of the Management Board & Executive Director of Finance Function	President of the Management Board

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

INA Matica Unconsolidated Income Statement

For the year ended 31 December 2007

(all amounts in HRK millions)

	Notes	2007	2006
Sales revenue			
a) domestic		14,975	14,352
b) exports		7,676	6,974
Total sales revenue	3	**22,651**	**21,326**
Income from own consumption of products and services		12	26
Other operating income		731	493
Total operating income		**23,394**	**21,845**
Changes in inventories of finished products and work in progress		(18)	117
Cost of raw materials and consumables		(12,409)	(11,332)
Depreciation and amortisation	4	(1,091)	(763)
Other material costs		(2,135)	(1,945)
Service costs		(1,190)	(1,277)
Staff costs	5	(1,639)	(1,519)
Cost of other goods sold		(3,419)	(3,903)
Impairment and charges		(330)	(471)
Provision for charges and risks (net)		(70)	(6)
Operating expenses		**(22,301)**	**(21,099)**
Profit from operations		**1,093**	**746**
Investment revenue	6	628	508
Finance costs	7	(521)	(410)
Net profit from financial activities		**107**	**98**
Profit before tax		**1,200**	**844**
Income tax expense	8	(210)	(174)
Profit for the year		**990**	**670**
Basic and diluted earnings per share (in HRK)		**99.0**	**67.0**

Signed on behalf of the Company on 11 March 2008 by:

Zalán Bács	Tomislav Dragičević
Vice President of the Management Board & Executive Director of Finance Function	President of the Management Board

The accompanying accounting policies and notes form an integral part of this unconsolidated income statement.

INA Group Consolidated Balance Sheet

At 31 December 2007

(all amounts in HRK millions)

ASSETS	Notes	2007	2006
Non-current assets			
Intangible assets	10	661	685
Property, plant and equipment	11	14,891	13,312
Goodwill	12	163	-
Investments in associates and joint ventures	14	124	57
Investments in other companies	15	62	48
Long-term receivables	16	177	181
Derivative financial instruments	40	226	251
Deferred tax	8	37	129
Available-for-sale assets	17	656	436
Total non – current assets		**16,997**	**15,099**
Current assets			
Inventories	18	3,123	2,838
Trade receivables, net	19	3,072	2,532
Other receivables	20	674	720
Derivative financial instruments	40	97	77
Other current assets	21	50	53
Prepaid expenses and accrued income	22	183	239
Cash and cash equivalents	23	720	630
Total current assets		**7,919**	**7,089**
TOTAL ASSETS		**24,916**	**22,188**

Signed on behalf of the Group on 11 March 2008 by:

Zalán Bács	Tomislav Dragičević
Vice President of the Management Board & Executive Director of Finance Function	President of the Management Board

The accompanying accounting policies and notes form an integral part of this consolidated balance sheet.

INA Group Consolidated Balance Sheet

At 31 December 2007

(all amounts in HRK millions)

EQUITY AND LIABILITIES	**Notes**	**2007**	**2006**
Capital and reserves			
Share capital	31	9,000	9,000
Revaluation reserve	32	229	66
Other reserves	33	2,301	2,347
Retained earnings	34	2,104	1,366
Equity attributable to equity holders of the parent		**13,634**	**12,779**
Minority interest	35	9	7
TOTAL EQUITY		**13,643**	**12,786**
Non – current liabilities			
Long-term loans	27	3,130	1,425
Other non-current liabilities	28	144	153
Employee benefit obligation	30	91	72
Provisions	29	1,406	1,186
Total non–current liabilities		**4,771**	**2,836**
Current liabilities			
Bank loans and overdrafts	24	1,664	1,935
Current portion of long-term loans	24	129	578
Trade payables	25	3,532	2,900
Taxes and contributions	25	648	549
Other current liabilities	25	269	264
Accruals and deferred income	26	198	157
Employee benefit obligation	30	15	8
Provisions	29	47	175
Total current liabilities		**6,502**	**6,566**
TOTAL LIABILITIES		**11,273**	**9,402**
TOTAL EQUITY AND LIABILITIES		**24,916**	**22,188**

Signed on behalf of the Group on 11 March 2008 by:

Zalán Bács	Tomislav Dragičević
Vice President of the Management Board & Executive Director of Finance Function	President of the Management Board

The accompanying accounting policies and notes form an integral part of this consolidated balance sheet.

INA Matica Unconsolidated Balance Sheet

At 31 December 2007

(all amounts in HRK millions)

ASSETS	Notes	2007	2006
Non-current assets			
Intangible assets	10	655	678
Property, plant and equipment	11	12,623	11,465
Investment in subsidiaries	13	1,286	978
Investments in associates and joint ventures	14	189	57
Investments in other companies	15	426	42
Long-term receivables	16	290	339
Derivative financial instruments	40	226	251
Deferred tax	8	34	125
Available-for-sale assets	17	656	436
Total non–current assets		**16,385**	**14,371**
Current assets			
Inventories	18	2,581	2,367
Intercompany receivables		706	571
Trade receivables, net	19	2,092	1,722
Other receivables	20	583	667
Derivative financial instruments	40	97	77
Other current assets	21	90	84
Prepaid expenses and accrued income	22	151	208
Cash and cash equivalents	23	299	226
Total current assets		**6,599**	**5,922**
TOTAL ASSETS		**22,984**	**20,293**

Signed on behalf of the Company on 11 March 2008 by:

Zalán Bács	Tomislav Dragičević
Vice President of the Management Board & Executive Director of Finance Function	President of the Management Board

The accompanying accounting policies and notes form an integral part of this unconsolidated balance sheet.

INA Matica Unconsolidated Balance Sheet

At 31 December 2007

(all amounts in HRK millions)

EQUITY AND LIABILITIES	**Notes**	**2007**	**2006**
Capital and reserves			
Share capital	31	9,000	9,000
Revaluation reserve	32	229	66
Other reserves	33	1,952	1,952
Retained earnings	34	1,410	551
TOTAL EQUITY		**12,591**	**11,569**
Non–current liabilities			
Long term loans	27	2,988	1,372
Other non-current liabilities	28	144	153
Employee benefit obligation	30	65	48
Provisions	29	1,331	1,122
Total non–current liabilities		**4,528**	**2,695**
Current liabilities			
Bank loans and overdrafts	24	97	159
Current portion of long-term loans	24	45	506
Intercompany payables		3,096	2,541
Trade payables	25	1,876	1,935
Taxes and contributions	25	535	479
Other current liabilities	25	86	146
Accruals and deferred income	26	97	115
Employee benefit obligation	30	8	5
Provisions	29	25	143
Total current liabilities		**5,865**	**6,029**
TOTAL LIABILITIES		**10,393**	**8,724**
TOTAL EQUITY AND LIABILITIES		**22,984**	**20,293**

Signed on behalf of the Company on 11 March 2008 by:

Zalán Bács	Tomislav Dragičević
Vice President of the Management Board & Executive Director of Finance Function	President of the Management Board

The accompanying accounting policies and notes form an integral part of this unconsolidated balance sheet.

INA Group Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

(all amounts in HRK millions)

	Share capital	Other reserves	Revaluation reserves	Retained earnings	Attributable to equity holders of the parent	Minority interest	Total
Balance at 1 January 2006	**9,000**	**2,390**	**(96)**	**483**	**11,777**	**6**	**11,783**
Gains on available-for-sale investments	-	-	162	-	162	-	162
Exchange differences on translation of the financial statements of foreign operations	-	(43)	-	-	(43)	-	(43)
Net income/(expense) recognised directly in equity	*-*	*(43)*	*162*	*-*	*119*	*-*	*119*
Profit for the year	-	-	-	883	883	1	884
Total recognised income and expense	*-*	*(43)*	*162*	*883*	*1,002*	*1*	*1,003*
Balance at 31 December 2006	**9,000**	**2,347**	**66**	**1,366**	**12,779**	**7**	**12,786**

INA Group Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

(all amounts in HRK millions)

	Share capital	Other reserves	Revaluation reserves	Retained earnings	Attributable to equity holders of the parent	Minority interest	Total
Balance at 1 January 2007	**9,000**	**2,347**	**66**	**1,366**	**12,779**	**7**	**12,786**
Gains on available-for-sale investments	-	-	163	-	163	-	163
Dividends paid	-	-	-	(131)	(131)	-	(131)
Exchange differences on translation of the financial statements of foreign operations	-	(46)	-	-	(46)	-	(46)
Net income/(expense) recognised directly in equity	*-*	*(46)*	*163*	*(131)*	*(14)*	*-*	*(14)*
Profit for the year	-	-	-	869	869	2	871
Total recognised income and expense	*-*	*(46)*	*163*	*738*	*855*	*2*	*857*
Balance at 31 December 2007	**9,000**	**2,301**	**229**	**2,104**	**13,634**	**9**	**13,643**

Signed on behalf of the Group on 11 March 2008 by:

Zalán Bács	Tomislav Dragičević
Vice President of the Management Board & Executive Director of Finance Function	President of the Management Board

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

INA Matica Unconsolidated Statement of Changes in Equity

For the year ended 31 December 2007

(all amounts in HRK millions)

	Share capital	Other reserves	Revaluation reserves	Retained earnings	Total
Balance at 1 January 2006	**9,000**	**1,952**	**(96)**	**(119)**	**10,737**
Gains on available-for-sale investments	-	-	162	-	162
Net income/(expense) recognized directly in equity	*-*	*-*	*162*	*-*	*162*
Profit for the year	-	-	-	670	670
Total recognised income and expense	*-*	*-*	*162*	*670*	*832*
Balance at 31 December 2006	**9,000**	**1,952**	**66**	**551**	**11,569**
Gains on available-for-sale investments	-	-	163	-	163
Dividends paid	-	-	-	(131)	(131)
Net income/(expense) recognized directly in equity	-	-	163	(131)	32
Profit for the year	-	-	-	990	990
Total recognised income and expense	*-*	*-*	*163*	*859*	*1,022*
Balance at 31 December 2007	**9,000**	**1,952**	**229**	**1,410**	**12,591**

Signed on behalf of the Company on 11 March 2008 by:

Zalán Bács
Vice President of the Management Board &
Executive Director of Finance Function

Tomislav Dragičević
President of the Management Board

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

INA Group Consolidated Cash Flow Statement

For the year ended 31 December 2007

(all amounts in HRK millions)

	Notes	2007	2006
Profit for the year		**871**	**884**
Adjustments for:			
Depreciation and amortisation		1,302	964
Income tax expense recognized in profit		262	221
Impairment charges (net)		381	500
Gain on sale of property, plant and equipment		(9)	(9)
Gain on sale of shares or stakes		(17)	-
Foreign exchange gain		(402)	(186)
Interest expense (net)		333	202
Other finance income/(expense) recognised in profit		45	(42)
Change in provision for charges and risks and other non-cash items		(130)	(136)
		2,636	**2,398**
Movements in working capital			
(Increase)/decrease in inventories		(448)	484
Increase in receivables and prepayments		(479)	(487)
Increase/(decrease) in trade and other payables		860	(314)
Increase/(decrease) in provisions		15	(147)
Cash generated from operations		**2,584**	**1,934**
Taxes paid		(168)	(505)
Net cash inflow from operating activities		**2,416**	**1,429**
Cash flows used in investing activities			
Payments for property, plant and equipment		(2,354)	(2,679)
Payments for intangible assets		(274)	(393)
Proceeds from sale of non-current assets		13	20
Acquisition of investments in associates and joint ventures and other companies		(279)	(2)
Dividends received from companies classified as available for sale and from other companies		2	3
Investments and loans to third parties, net		8	26
Net cash used for investing activities		**(2,884)**	**(3,025)**

(all amounts in HRK millions)

	Notes	2007	2006
Cash flows from financing activities			
Additional long-term borrowings		3,700	1,375
Repayment of long-term borrowings		(2,360)	(428)
Net (repayment)/drawdown of short-term borrowings		(300)	986
Interest paid on long-term loans		(152)	(87)
Other long-term liabilities, net		(9)	(9)
Dividends paid		(131)	-
Interest paid on short-term loans and other financing charges		(172)	(18)
Net cash from financing activities		**576**	**1,819**
Net increase in cash and cash equivalents		**108**	**223**
At 1 January		630	376
Effect of foreign exchange rate changes		(18)	31
At 31 December	23	**720**	**630**

Signed on behalf of the Group on 11 March 2008 by:

Zalán Bács	Tomislav Dragičević
Vice President of the Management Board & Executive Director of Finance Function	President of the Management Board

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

(all amounts in HRK millions)

	Notes	2007	2006
Profit for the year		**990**	**670**
Adjustments for:			
Depreciation and amortisation		1,091	763
Income tax expense recognized in profit		210	174
Impairment charges (net)		330	471
Gain on sale of property plant and equipment		(5)	(12)
Gain on sale of shares or stakes		(17)	-
Foreign exchange gain		(388)	(279)
Interest expense (net)		341	213
Other finance income/(expense) recognised in profit		29	(32)
Change in provision for charges and risks and other non-cash items		(475)	(139)
		2,106	**1,829**
Movements in working capital			
(Increase) / decrease in inventories		(284)	554
Increase in receivables and prepayments		(511)	(531)
Increase in trade and other payables		633	571
Increase/(decrease) in provisions		33	(147)
Cash generated from operations		**1,977**	**2,276**
Taxes paid		(137)	(472)
Net cash inflow from operating activities		**1,840**	**1,804**
Cash flows used in investing activities			
Payment for property, plant and equipment		(1,995)	(2,331)
Payment for intangible assets		(267)	(390)
Proceeds from sale of non-current assets		5	20
Proceeds from sale of investments		18	-
Aquisition for investments in subsidiaries, associates and joint ventures and other companies		(132)	(23)
Dividends received from companies classified as available for sale and from other companies		3	3
Interest received		-	2
Investments and loans to subsidiaries, net		(423)	6
Net cash used in investing activities		**(2,791)**	**(2,713)**

(all amounts in HRK millions)

	Notes	2007	2006
Cash flows from financing activities			
Additional long-term borrowings		3,695	1,375
Repayment of long-term borrowings		(2,289)	(324)
Net (repayment)/drawdown of short term-borrowings		(62)	6
Interest paid on long-term loans		(145)	(75)
Other long-term liabilities, net		(8)	(10)
Interest paid on short term loans and other financing charges		(44)	(16)
Dividends paid		(131)	-
Net cash from financing activities		**1,016**	**956**
Net increase in cash and cash equivalents		**65**	**47**
At 1 January		226	148
Effect of foreign exchange rate changes		8	31
At 31 December	23	**299**	**226**

Signed on behalf of the Company on 11 March 2008 by:

Zalán Bács	Tomislav Dragičević
Vice President of the Management Board & Executive Director of Finance Function	President of the Management Board

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

1. GENERAL

History and incorporation

The company, INA - Industrija Nafte d.d. Zagreb (INA), also known as INA Matica (Parent Company), is a joint stock company, with the Republic of Croatia being a major shareholder. INA was founded on 1 January 1964 when the operations of Naftaplin (oil and gas exploration and production) were merged with those of the refineries of Rijeka and Sisak.

By the end of that decade INA had expanded to include the Zagreb refinery, Trgovina (a domestic trade organisation), the OKI and DINA organic petrochemical operations and the Kutina fertiliser plant. In 1974, INA was transformed into a "complex organisation of associated work" or "s.o.u.r.", a step which also involved the formation of a number of separate companies. The organisation continued in this form until 1990 when, under the terms of Law (Official Gazette 42/90 and the 61/91 supplement), INA became a state-owned enterprise.

In 1993 INA became a share based company (or "d.d.") pursuant to a Decree published in the Official Gazette No. 60/93.

Effective 31 December 1996, the Company signed a financial restructuring agreement with the Deposit Insurance and Bank Rehabilitation Agency of the Croatian Government, whereby INA divested the majority of its interests in petrochemicals, fertilisers, tourism and banking in consideration for the assumption by the Agency of certain long-term debt and interest liabilities.

Effective 11 March 2002, the Croatian Government acquired the Company's subsidiary, Plinacro d.o.o., together with a 21.37 % interest in JANAF d.d., the company which owns and operates the Adria pipeline system, in consideration for assuming US$ 172 million (HRK 1,438 million) of the company's long-term debt with the London and Paris Clubs.

On 19 March 2002, the Croatian Parliament passed the Law on the Privatisation of INA (Official Gazette 32/02), governing INA's privatisation process by allocating INA's shares to several target Groups. Under this legislation, up to 25% plus one share were to be sold to a strategic investor, 15% of shares were to be sold on the basis of public tender, Croatian war veterans and members of their families were to receive up to 7% without consideration, up to 7% were to be sold to present and former employees of INA Group companies and the remaining shares were to be sold or exchanged depending on the prevailing market conditions. The remaining shares were to be exempted to the extent necessary for the compensation to the original, former owners. The Republic of Croatia will maintain ownership of over 25% plus one share of INA, which will be privatised once Croatia becomes a member of the European Union.

The sequence and progress of individual privatisation stages were determined by decisions of the Croatian Government, agreed to by the Croatian Parliament (Official Gazette Nos. 47/02, 77/04, 66/05, 104/06, 113/06, 122/06, 129/06, 77/07, 94/07 and 103/07).

During 2002, the Government solicited for, and received, bids from a number of parties interested in acquiring a strategic investment of 25 % plus one share of INA. On 10 November 2003, a transaction was completed whereby MOL Rt (MOL) acquired 25 % plus one share of INA.

(all amounts in HRK millions)

1. GENERAL (continued)

History and incorporation (continued)

In 2005 7%, or 700,000 INA shares, were transferred to the Croatian Homeland Independence War Veterans and Their Family Members' Fund without any fee, in accordance with the decision of the Croatian Government of 12 October 2005, adopted by the Croatian Parliament (Official Gazette 122/2005).

In its session of 22 July 2005, the Croatian Government adopted a decision on forming a Commission to continue the privatisation process of INA - Industrija nafte d.d. (a new Commission member was appointed by a subsequent decision dated 26 August 2005 amending the initial decision).

In 2006 INA went into the next privatization stage. The Government of the Republic of Croatia made available for sale 1,700,000 ordinary shares, of INA - Industrija nafte d.d., in a public offering to (1) Croatian citizens with priority rights and on preferential terms and (2) to the extent any shares are not taken up in the Preferential Offering, natural persons, domestic legal persons and foreign investors in Croatia, without priority rights and preferential terms.

The shares became publicly traded on 1 December 2006.

In 2007, based on the Government Decision on the Manner of Sale, Price, Special Privileges, Timing and Terms of the Sale to the existing and former employees of INA – Industrija nafte d.d., dated 19 July 2007 (Official Gazette 77/07), pursuant to the Law on the Privatization of INA – Industrija nafte d.d. (Official Gazette No. 32/2002) and the Amendments to the Decision of 7 September 2007 (Official Gazette No. 94/07), the Croatian Government decided to sell up to 7 % of the shares of INA – Industrija nafte d.d. (700,000 shares).

Based on the Government Decisions, the existing and former employees have purchased 628,695 shares.

On 3 December 2007, 66,754 supplementary shares were transferred from the account of the Croatian Government to the account of the eligible investors under the Decision of the Croatian Government of 14 September 2006 and the Amendments to the Decision of 13 October 2006 and 10 November 2006.

The ownership structure of the INA Group as of 31 December 2007:

	2007		2006	
	Number of shares	**Ownership in %**	**Number of shares**	**Ownership in %**
Government of the Republic of Croatia	4,484,918	44.85	5,180,367	51.80
MOL	2,500,001	25.00	2,500,001	25.00
Croatian Homeland War Veterans Fund	700,000	7.00	700,000	7.00
Zagrebačka banka d.d.(treasurer)/ Citibank N.A. (GDR depositor)	204,307	2.04	368,725	3.69
Small shareholders (less than 2 % individually)	2,110,774	21.11	1,250,907	12.51
	10,000,000	**100**	**10,000,000**	**100**

1. GENERAL (continued)

Distribution of dividends and bonuses to the Supervisory Board and the Management Board in accordance with the decision made in the General Meeting of Shareholders

In the General Meeting of Shareholders of INA-Industrija nafte d.d. held on 11 May 2007, a decision was made on the allocation of the net profit for the year 2006, by which 131 million HRK or HRK 13.08 per share, were designated for the distribution of dividends.

The General Meeting of Shareholders has not passed a decision on the distribution of bonuses to the Supervisory Board and the Management Board during 2007.

Principal activities

Principal activities of INA and its subsidiaries (Group) are:

(i) exploration and exploitation of oil and gas deposits, primarily onshore and offshore within Croatia; other licence interests are held in Angola, Egypt and Syria;

(ii) import of natural gas and sale of imported and domestically produced natural gas to industrial consumers and municipal gas distributors;

(iii) refining and production of oil products through refineries located at Rijeka (Urinj) and Sisak, and the Rijeka (Mlaka) and Zagreb lubricants plants;

(iv) distribution of fuels and associated products through a chain of some 498 retail outlets in operation as of 31 December 2007 (of which 449 in Croatia and 49 outside Croatia);

(v) trading in crude oil and petroleum products through a network of foreign subsidiaries and representative offices, principally in London, Ljubljana, Sarajevo and Moscow;

(vi) service activities incidental to on-shore and off-shore oil extraction through its drilling and oilfield services subsidiary Crosco d.o.o.

The Group has dominant positions in Croatia over oil and gas exploration and production, oil refining, and the marketing of gas and petroleum products. INA also holds a 16.00% interest in JANAF d.d., the company that owns and operates the Adria pipeline system.

The headquarters of the Group are located in Zagreb, Avenija V. Holjevca 10, Croatia. As at 31 December 2007 there were 15,855 persons employed at the Group (15,873 at 31 December 2006). As at 31 December 2007 there were 10,123 persons employed at the Ina Matica (10,183 at 31 December 2006).

The Group comprises a number of wholly and partially owned subsidiaries operating largely within the Republic of Croatia. Foreign subsidiaries include a number of trading subsidiaries which generally act as distributors of INA Group products, suppliers of raw materials, arrangers of finance and as representative offices within their local markets.

1. GENERAL (continued)

Directors, Management and Supervisory Board

Supervisory Board until 5th June 2006

Ivan Šuker	Chairman
Zoltán Áldott	Deputy Chairman
Božidar Kalmeta	
Damir Polančec	
Tomislav Ivić	
György Mosonyi	

Supervisory Board from 6th June 2006

Ivan Šuker	Chairman
Zoltán Áldott	Deputy Chairman
Đuro Dečak	
Damir Polančec	
Tomislav Ivić	
György Mosonyi	

Management Board until 4th May 2006

Tomislav Dragičević, ScD	President of the Board
László Geszti	Vice-president of the Board - Executive Director Finance Function
Prof. Mirko Zelić, ScD	Member of the Board - Executive Director Business Segment Exploration and Production
Josip Petrović	Member of the Board - Executive Director Business Segment Refining and Wholesale
Ivan Brusić	Member of the Board - Executive Director Business Segment Retail Services
Tomislav Thür	Member of the Board – Director Corporate Processes Function
Zálan Bács	Member of the Board – Director Corporate Services Function

Management Board from 5th May 2006

Tomislav Dragičević,ScD	President of the Board
László Geszti	Vice-president of the Board - Executive Director Finance Function
Prof. Mirko Zelić, ScD	Member of the Board - Executive Director Business Segment Exploration and Production
Josip Petrović	Member of the Board - Executive Director Business Segment Refining and Wholesale
Niko Paulinović	Member of the Board - Executive Director Business Segment Retail Services
Tomislav Thür	Member of the Board – Director Corporate Processes Function
Zalán Bács	Member of the Board – Director Corporate Services Function
Darko Markotić, BLL	Secretary of INA d.d. in 2006

(all amounts in HRK millions)

1. GENERAL (continued)

Directors, Management and Supervisory Board (continued)

Supervisory Board until 1st February 2007

Ivan Šuker	Chairman
Zoltán Áldott	Deputy Chairman
Damir Polančec	
Tomislav Ivić	
Đuro Dečak	
György Mosonyi	

Supervisory Board from 1st February 2007

Ivan Šuker	Chairman
Zoltán Áldott	Deputy Chairman
Damir Polančec	
Tomislav Ivić	
Đuro Dečak	
László Geszti	

On 29th October 2007, the mandate of Mr. Zoltan Áldott as Deupty Chairman was extended for the following four years.

Management Board
From 1st January. until 31st December 2007

dr.sc.Tomislav Dragičević	President of the Board
Zalán Bács	Vice-president of the Board - Executive Director Finance Function
prof. dr.sc. Mirko Zelić, ScD	Member of the Board - Executive Director Business Segment Exploration and Production
Josip Petrović	Member of the Board - Executive Director Business Segment Refining and Wholesale
Niko Paulinović	Member of the Board - Executive Director Business Segment Retail Services
Tomislav Thür	Member of the Board – Director Corporate Processes Function
Sándor Lendvai	Member of the Board – Director Corporate Services Function

By decision of the Supervisory Board of 19th September 2007, the mandate of Mr. Tomislav Dragičević, ScD, was extended from 30th October 2007 for the following four years.

Darko Markotić, BLL	Secretary of INA d.d. in 2007

2. ACCOUNTING POLICIES

A summary of the Group's principal accounting policies which have been applied consistently in the current year and with the prior year, is set out below.

Presentation of the financial statements

These consolidated financial statements are prepared on the consistent presentation and classification basis. When the presentation or classification of items in the consolidated financial statements is amended, comparative amounts are reclassified unless the reclassification is impracticable.

Basis of accounting

The Company maintains its accounting records in the Croatian language, in Croatian kuna and in accordance with Croatian law and the accounting principles and practices observed by enterprises in Croatia. The accounting records of the Company's subsidiaries in Croatia and abroad are maintained in accordance with the requirements of the respective local jurisdictions.

The Company's and Group's financial statements are prepared under the historical cost convention, modified by the revaluation of certain assets and liabilities under conditions of hyperinflation in the period to 1993, and in accordance with International Financial Reporting Standards as published by the International Accounting Standards Board, and the Croatian law.

Adoption of new and revised International Financial Reporting Standards

Standards and Interpretation effective in the current period

In the current year, the Company and the Group have adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the 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 2007:
IFRS 7 *Financial Instruments: Disclosures* (effective date: annual periods beginning on or after 1 January 2007) and the consequential amendments to *IAS 1 Presentation of Financial Statements*

Four Interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period:
IFRIC Interpretation 7 *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies* (effective date: annual periods beginning on or after 1 March 2006);
IFRIC Interpretation 8 *Scope of IFRS 2* (effective date: annual periods beginning on or after 1 May 2006);
IFRIC Interpretation 9 *Reassessment of Embedded Derivatives* (effective date: annual periods beginning on or after 1 June 2006);
IFRIC Interpretation 10 *Interim Financial Reporting and Impairment* (effective date: annual periods beginning on or after 1 November 2006).

2. ACCOUNTING POLICIES (continued)

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

Standards and Interpretation effective in the current period (continued)

The adoption of these Interpretations has not led to any changes in the INA`s Group accounting policies.

Standards and Interpretations in issue not yet adopted

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

IAS 23 Borrowing Costs, the revised sections (borrowing costs for assets that take a substantial period to get ready for use, the capitalisation of which begins on or after 1 January 2009)

IFRS 8 *Operating segments* (effective date: annual periods beginning on or after 1 January 2009)

IFRIC 13 *Customer Loyalty Programmes* (effective date: annual periods beginning on or after 1 January 2008).

IFRIC 11 IFRS 2: *Group and Treasury Share Transactions* (effective date: annual periods beginning on or after 1 March 2007).

IFRIC 12 *Service concession arrangements* (effective date: annual periods beginning on or after 1 January 2008)

IFRIC 14 *IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective date: annual periods beginning on or after 1 January 2008)

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Company and the Group.

Basis of Parent Company financial statement (INA Matica)

The unconsolidated financial statements of the Company represent aggregate amounts of the Company's assets, liabilities, capital and of the results for the period then ended of the divisions which comprised the company. All inter-divisional transactions and balances are eliminated.

In the Company’s financial statements investments in subsidiaries are stated at cost less provision for impairment.

The consolidated financial statements incorporate the financial statements of INA d.d. (INA Matica or the Company) and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

2. ACCOUNTING POLICIES (continued)

Basis of consolidated financial statements (INA Group)

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All intra-Group transactions, balances, income and expenses are eliminated in full on consolidation.

Minority interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination (see below) and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

2. ACCOUNTING POLICIES (continued)

Investments in associates (continued)

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are not recognised, unless the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Interests in joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control, that is when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control.

Where a Group entity undertakes its activities under joint venture arrangements directly, the Group's share of jointly controlled assets and any liabilities incurred jointly with other venturers are recognised in the financial statements of the relevant entity and classified according to their nature. Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accrual basis. Income from the sale or use of the Group's share of the output of jointly controlled assets, and its share of joint venture expenses, are recognised when it is probable that the economic benefits associated with the transactions will flow to/from the Group and their amount can be measured reliably.

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities. The Group reports its interests in jointly controlled entities using proportionate consolidation. The Group's share of the assets, liabilities, income and expenses of jointly controlled entities are combined with the equivalent items in the consolidated financial statements on a line-by-line basis.

2. ACCOUNTING POLICIES (continued)

Interests in joint ventures (continued)

Any goodwill arising on the acquisition of the Group's interest in a jointly controlled entity is accounted for in accordance with the Group's accounting policy for goodwill arising on the acquisition of a subsidiary (see below).

Where the Group transacts with its jointly controlled entities, unrealised profits and losses are eliminated to the extent of the Group's interest in the joint venture.

The Company's and the Group's proportion of development expenditure incurred through exploration and production joint venture arrangements are included within property, plant and equipment - oil and gas properties.

Goodwill

Goodwill arising on the acquisition of a subsidiary or a jointly controlled entity represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate is described under 'Investments in associates' above.

Oil and gas properties

Exploration and appraisal costs

Exploration and appraisal costs are accounted for on the successful efforts basis. Costs relating to exploration and appraisal drilling are initially capitalised as intangible oil and gas assets pending determination of the commercial viability of the relevant oil and gas properties.

License and data provision costs and costs associated with geological and geophysical activities are charged to the income statement period in which they are incurred.

2. ACCOUNTING POLICIES (continued)

Oil and gas properties (continued)

If prospects are subsequently deemed to be unsuccessful on completion of evaluation, the associated costs are charged to the income statement in the period. If the prospects are deemed to be commercially viable, such costs are transferred to oil and gas properties. The status of such prospects is reviewed regularly by management.

Fields under development

Costs of exploring and oil and gas field development costs are capitalised as intangible or tangible oil and gas assets. Such costs also include, prospectively, applicable exploration costs and development drilling costs.

Depreciation

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

Commercial reserves

Commercial reserves are net proved developed oil and gas reserves. Changes in the commercial reserves of fields affecting unit of production calculations are dealt with prospectively over the revised remaining reserves.

Reporting currency

The Company's and the Group's financial statements are prepared in Croatian kuna (HRK). The effective exchange rate of the Croatian currency (Kuna) at 31 December 2007 was 7.33 kunas per 1 Euro and 4.99 kunas per 1 United States dollar (31 December 2006 - 7.34 kunas per 1 Euro and 5.58 kunas per 1 United States dollar). Average exchange rate in 2007 was 7.34 kunas per 1 EUR and 5.37 kunas per 1 US$ (2006 7.32 kunas per 1 EUR and 5.84 kunas per 1 US$).

Property, plant and equipment

Property, plant and equipment are shown at historical cost or valuation less accumulated depreciation and any accumulated impairment loss, except for land, which is stated at cost. Property, plant and equipment in use (excluding oil and gas properties) are depreciated on a straight-line basis on the following basis:

2. ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Buildings	Up to 50 years
Plant and machinery	5-20 years
Vehicles and transport	4-20 years
Office equipment	5-10 years

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

The initial cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing an asset to its working condition and location for its intended use.

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

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

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

Impairment of tangible and intangible assets

Tangible and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is charged to the income statement.

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

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

2. ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction less the cost of disposal, while value in use is the present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the relevant cash-generating unit.

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

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

In the case of oil and gas properties, the relevant cash generating unit is the group of assets which relate to an individual field, and value in use is computed using prices, costs and exchange rates based on reasonable and supportable assumptions and projections. Exploration and appraisal costs carried under the successful efforts method of accounting as intangible assets are assessed for impairment as described above.

Finance and operating leases

The Company and the Group have no finance lease arrangements. No significant new operating lease agreements were entered into during 2007 and 2006. The Company and the Group recognise leases payable under operating leases on a straight-line basis over the term of the relevant lease, unless there is another systematic basis that would be more representative of the time pattern of the user's benefit.

2. ACCOUNTING POLICIES (continued)

Debtors and prepayments

Debtors and prepayments are shown at amounts invoiced in accordance with the underlying agreement, order, delivery note and other documents serving as the billing basis, net of allowance for uncollectible amounts.

Management provides for doubtful receivables based on a review of the overall ageing of all receivables and a specific review of significant individual amounts receivable. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. Otherwise, the Company applies a provision against all receivables older than 120 days.

Inventories

Inventories of crude oil, finished and semi-finished products and natural gas are valued as follows:

- Crude oil is valued at the lower of production or purchase cost (as applicable) and net realisable value based on year-end Platts prices.
- Finished products are valued at the lower of cost or 96% of estimated average sales price, which approximates the net recoverable amount.
- Semi-finished products and work in progress are valued at the lower of estimated cost of production and net realisable value based on the selling prices of INA d.d. (by reference to Platts prices) reduced by a commensurate percentage, based on the extent of completion of processing, of estimated average refining and production margins.
- Imported natural gas held in underground storage is valued at the lower of cost, based on the price of imported gas at year-end including transport costs, and weighted average sales price based on year-end prices.
- Domestic natural gas held in underground storage is valued at the lower of weighted average sales price and cost.
- Other inventories, which comprise mainly spare parts, materials and supplies, are valued at the lower of cost or valuation and net realisable value, less any provision for slow-moving and obsolete items.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Borrowing costs

Borrowing costs are recognised in profit or loss in the period in which they are incurred.

2. ACCOUNTING POLICIES (continued)

Foreign currencies

The individual financial statements of each Company and the Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Croatian kunas (HRK), which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual Group entities, transactions in currencies other than the entity's functional currency (foreign currencies) are translated to the functional currency of entity at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated to the functional currency of the entity at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period as finance cost except for differences arising on the retranslation of non-monetary assets available for sale, in respect of which gains and losses are recognised directly in equity.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in Croatian kunas using exchange rates prevailing on the balance sheet date. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising from year-end translation, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Retirement Benefit and Jubilee Costs

For defined benefit retirement benefit schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur and charged to the profit and loss.

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

2. ACCOUNTING POLICIES (continued)

Taxation

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

Current tax

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

Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax assets are recognised on the basis of taxable temporary differences on investments in subsidiaries and associates and joint ventures, unless the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax laws that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company and the Group intend to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity, or where they arise from the initial accounting for a business combination.

2. ACCOUNTING POLICIES (continued)

Taxation (continued)

Current and deferred tax for the period (continued)

In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

Financial assets

Investments are recognised and derecognised on a trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into as 'available for sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments.

AFS financial assets

Listed shares held by the Company and Group that are traded in an active market are classified as being AFS and are stated at fair value. Fair value is determined in the manner described in Note 40. Gains and losses arising from changes in fair value are recognised directly in equity in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in profit or loss for the period.

Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive payments is established.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the balance sheet date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in equity.

2. ACCOUNTING POLICIES (continued)

Financial assets (continued)

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, any increase in fair value subsequent to an impairment loss is recognised directly in equity.

Investments

Investments in immaterial non-consolidated companies are generally recorded at cost less provision for any impairment.

2. ACCOUNTING POLICIES (continued)

Financial liabilities

Financial liabilities are classified as other financial liabilities.

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

In the ordinary course of business, the Company and Group has entered into certain long-term, foreign currency supply and sales contracts which, under IAS 39, include embedded derivatives. An embedded derivative is a component of a contract which has the effect that the cash flows arising under the contract vary, in part, in a similar way to a standalone derivative. IAS 39 requires that such embedded derivatives are separated from the host contracts and accounted for as derivatives carried at fair value, with changes in fair value being charged or credited to the income statement, as applicable.

The fair value of embedded forward foreign exchange contracts is determined by reference to spot market foreign currency rates at the balance sheet date, because there is no active forward market in the countries involved in contracts. The fair value of an embedded inflation index swap is determined by the reference to the cumulative inflation index differential between the contracted inflation escalator and inflation in the country where the contract is executed. The long-term effects of these embedded derivatives are discounted using a discount rate similar to the interest rate on government bonds.

Segmental disclosures

For management reporting purposes, the Group is organized into four major operating business units. The business units are the basis upon which the Group reports its primary segment information.

2. ACCOUNTING POLICIES (continued)

Provisions for decommissioning and other obligations

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of discounting is material, the amount of the provision is the present value of the expenditures expected to be required to settle the obligation, determined using the estimated risk free interest rate as the discount rate. Where discounting is used, the reversal of such discounting in each year is recognised as a financial expense and the carrying amount of the provision increases in each year to reflect the passage of time.

Where the provision relates to the decommissioning and removal of assets, such as an oil and gas production facility, the initial recognition of the decommissioning provision is treated as part of the cost of the related property, plant and equipment. Subsequent adjustments to the provision arising from changes in estimates are also treated as an adjustment to the cost of property, plant and equipment and thus dealt with prospectively in the income statement through future depreciation of the asset.

Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with International Reporting Financial Standards, as published by the International Accounting Standards Board requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The significant areas of estimation used in the preparation of the accompanying financial statements relate to employee benefits, impairment of assets, determination of fair values of assets and liabilities and estimated decommissioning costs. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements when determinable.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for customer returns, rebates and other similar allowances.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

2. ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Rendering of services

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract. The stage of completion of the contract is determined as follows:

- installation fees are recognised by reference to the stage of completion of the installation, determined as the proportion of the total time expected to install that has elapsed at the balance sheet date;
- servicing fees included in the price of products sold are recognised by reference to the proportion of the total cost of providing the servicing for the product sold, taking into account historical trends in the number of services actually provided on past goods sold; and
- revenue from time and material contracts is recognised at the contractual rates as labour hours are delivered and direct expenses are incurred.

Dividend and interest revenue

Dividend revenue from investments is recognised when the shareholder's right to receive payment has been established.

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Significant accounting judgements and estimates

Critical judgements in applying accounting policies

In the application of the accounting policies, which are described in note 2, the management made certain judgements that had a significant impact on the amounts reported in the financial statements (irrespective of the underlying estimates referred to below).

These judgements are provided in detail in the accompanying notes. However, the critical judgements relate to the following areas:

Quantification and determination of the environmental and decomissioning obligations for oil and gas properties

The management makes estimates of future expenditure in connection with environmental protection and decomissioning obligations using prices by reference to prior similar activities, as well as other assumptions. Furthermore, the time determined for the cash flows reflects the current estimates of priorities, technical equipment requirements and urgency of the obligations. The obligation with respect to the decommission provision for oil and gas properties amounted to HRK 1,069 thousand and HRK 942 million at 31 December 2007 and 31 December 2006 (see note 29) respectively. Consequently, the amounts reported are subject to a large number of variables that may affect the calculation.

2. ACCOUNTING POLICIES (continued)

Significant accounting judgements and estimates (continued)

The level of provisioning for environmental protection and decommissioning of oil and gas properties

The applicable regulations, specifically the environmental protection legislation, do not specify the exact scope of activities or technology to be applied. In determining the level of provisions for environmental protection and decommissioning of oil and gas properties, the management relies on prior experience and their own interpretation of the related legislation.

Impairment of non-current assets, including goodwill

The impairment calculation requires the estimate of the value in use of the cash generating units. Value in use is measured using the discounted cash flow projections. The most significant variables in determining cash flows are discount rates, time values, the period of cash flow projections, as well as assumptions and judgements used in determining cash receipts and expenditure. The impairments reported in the consolidated income statement for 2007 and 2006 amounted to HRK 139 million and HRK 374 million, respectively. The carrying amount of goodwill for the year 2007 amounted to HRK 163 million (see note 12).

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

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. In determining the amount of deferred taxes that can be recognised are required, which are based on the probable quantification of time and level of future taxable profits, together with the future tax planning strategy. The carrying amount of deferred tax assets amounts to HRK 34 million and HRK 125 million as of 31 December 2007 and 2006, respectively (see note 8).

Actuarial estimates used in determining the retirement bonuses

The cost of defined benefits is determined using actuarial estimates. Actuarial estimates involve assumptions of discount rates, future salary increases and the mortality or fluctuation rates. Because of the long-term nature of those plans, there is uncertainty surrounding those estimates. Provisions for retirement bonuses and jubilee awards amounted to HRK 106 million and HRK 80 million at 31 December 2007 and 31 December 2006, respectively (see note 30).

Consequences of certain legal actions

There is a number of legal actions involving the INA Group members, which have arisen from the regular course of their operations. The management makes estimates when the probable outcome of the legal action has been estimated, and the provisions are recognised on a consistent basis (see note 29).

2. ACCOUNTING POLICIES (continued)

Significant accounting judgements and estimates (continued)

Crude oil and natural gas prices

Crude oil, natural gas and refinery product demand and prices depend on a variety of various factors beyond the control of the INA Group, including:

- global and regional economic and political developments, particularly in the Middle East;
- the ability of international oil cartels and oil-producing nations to influence production levels and prices;
- actions taken by governments;
- the level of consumer demand;
- the price and availability of alternative products; and
- weather conditions.

Historically, international crude oil and natural gas prices have fluctuated to a significant extent. A significant change in the crude oil and natural gas prices may have a significant impact on the operating results of the INA Group. Lower crude oil and natural gas prices may reduce the quantities of oil and natural gas that the INA Group could produce in terms of economically justified production, that is, it can reduce economic justification of the projects that are planned or already under way.

Exploration and development

Well exploration and development projects involve many uncertainties and business risks that may give rise to significant expenditure. Exploration and development projects of the INA Group may be delayed or unsuccessful for many various reasons, including budgeted cost overrun, geological issues, difficulties in meeting the requirements of competent bodies, lacks of equipment and technical problems. These projects, particularly those pertaining to the wells in continental areas or other demanding terrain, often require deployment of new and advanced technologies, the development, purchase and installation of which may be expensive and that may not operate as expected.

Oil and natural gas exploration and drilling activities are subject to a wide range of inherent risks, including the risk of eruption, deposit damage, loss of control over the wells, perforation, craters, fire and natural disasters.

Oil and natural gas reserves in Syria

The INA Group has been actively present in Syria since the mid-1970s.

The strategy of INA's Exploration and Production in the area of natural gas and oil depends partly on the successful exploration and development of its wells in Syria.

However, any military or political disturbance in Syria may affect the operations of the INA Group in various ways, including a disruption in the production and transport of crude oil or natural gas, or loss of properties. Any discontinued ability of the INA Group to produce or deliver its products may result in reduced revenue or additional costs of replacement or repairs, or insurance of the INA Group properties.

The INA Group concluded the licences and agreements pertaining to its Syria operations with the Syrian Government, which exposes them to political influence and changes. Depending on the overall political situation in Syria, adverse

effects are possible, such as on the net investment income of the INA Group in Syria, which could then have an adverse impact on the future operating results of the INA Group.

(all amounts in HRK millions)

3. SALES REVENUE

Revenue represents amounts receivable (exclusive of excise duties and similar levies but, in the case of Bosnia and Herzegovina and former Yugoslav territories, inclusive of import tariffs) in respect of sales of goods and services.

Revenue analysis by business segments

	INA Group		INA Matica	
	2007	**2006**	**2007**	**2006**
Exploration and production	5,907	4,247	5,012	4,282
Refining and wholesale	14,040	13,523	11,803	11,407
Retail	5,792	5,595	5,793	5,611
Corporate and other	109	69	43	26
	25,848	**23,434**	**22,651**	**21,326**

Revenue analysis by geographical segments

	INA Group		INA Matica	
	2007	**2006**	**2007**	**2006**
Within Republic of Croatia	16,467	14,797	14,975	14,352
Within Former Republic of Yugoslavia	3,977	3,169	2,489	2,305
Within the European Union	3,990	2,410	4,423	4,176
Rest of the world	1,414	3,058	764	493
	25,848	**23,434**	**22,651**	**21,326**

4. DEPRECIATION AND AMORTISATION

	INA Group		INA Matica	
	2007	**2006**	**2007**	**2006**
Amortisation of intangible assets (note 10)	78	18	75	13
Depreciation of property, plant and equipment (note 11 b)	1,224	946	1,016	750
	1,302	**964**	**1,091**	**763**

(all amounts in HRK millions)

5. STAFF COSTS

	INA Group		INA Matica	
	2007	**2006**	**2007**	**2006**
Net payroll	1,304	1,199	832	778
Contributions for pensions and health insurance	933	836	620	561
Other payroll related costs	344	350	187	180
	2,581	**2,385**	**1,639**	**1,519**

At the year-end, the Group employed the following personnel, the majority of whom work within the Republic of Croatia:

	INA Group		INA Matica	
	2007	**2006**	**2007**	**2006**
	Number	Number	Number	Number
Production	6,298	6,300	3,085	3,024
Distribution	4,463	4,465	3,792	3,758
Administration	4,220	4,229	2,959	2,989
Sales and marketing	463	460	70	61
Research and development	411	419	217	351
	15,855	**15,873**	**10,123**	**10,183**

6. INVESTMENT REVENUE

	INA Group		INA Matica	
	2007	**2006**	**2007**	**2006**
Foreign exchange gains	654	526	549	430
Other interest income	50	52	37	34
Dividends	2	3	2	3
Gains on embedded derivatives	-	39	-	39
Interest from financial assets	40	-	40	2
	746	**620**	**628**	**508**

(all amounts in HRK millions)

7. FINANCE COSTS

	INA Group		INA Matica	
	2007	2006	2007	2006
Foreign exchange losses	180	217	88	151
Interest payable on long-term loans	152	87	145	75
Other interest payable	231	167	235	174
Loss on embedded derivatives	5	-	5	-
Other financial expenses	65	18	48	10
	633	**489**	**521**	**410**

8. TAXATION

	INA Group		INA Matica	
	2007	2006	2007	2006
Current tax expense	211	274	159	225
Deferred tax charge/(benefit) relating to origination and reversal of temporary differences	51	(53)	51	(51)
Income tax expense for the year	**262**	**221**	**210**	**174**

Domestic income tax rate is calculated at 20 per cent in 2007 (2006: 20 per cent) of the income before taxes for the year.

Income taxes are recorded on the basis of estimated taxable income in accordance with the fiscal laws prevailing in the country in which they originate. The Company is subject to corporate income tax on its taxable profits in Croatia.

(all amounts in HRK millions)

8. TAXATION (continued)

The total charge for the year can be reconciled to the accounting profits as follow:

	INA Group		INA Matica	
	2007	**2006**	**2007**	**2006**
Profit before tax	1,133	1,105	1,200	844
Income tax expense calculated at 20%	227	221	240	169
Tax effect of permanent differences	35	2	25	5
Reversal of unrecognised deferred tax assets	-	(2)	(55)	-
Current and deffered tax expense	**262**	**221**	**210**	**174**

In addition to the income tax expense charged to profit or loss, a deferred tax charge of HRK 41 million in 2007 (in 2006: HRK 17 million) has been recognised in equity. The movements in deferred tax assets were as follows:

INA Group	**Value adjustment of current assets**	**Value adjustment of tangible and intangible assets**	**Reversal of depreciation for impaired asset**	**Provision recorded for ENI tax case**	**Value adjustment of financial investments**	**Total**
Balance at 01 January 2006	**8**	**57**	**(5)**	**19**	**13**	**92**
Credit to equity for the year	-	-	-	-	(17)	(17)
Reversal of temporary differences	(5)	(10)	(5)	(19)	-	(39)
Origination of temporary differences	22	42	-	23	6	93
Balance at 31 December 2006	**25**	**89**	**(10)**	**23**	**2**	**129**
Credit to equity for the year	-	-	-	-	(41)	(41)
Reversal of temporary differences	(19)	(42)	(6)	(23)	-	(90)
Origination of temporary differences	20	17	-	1	1	39
Balance at 31 December 2007	**26**	**64**	**(16)**	**1**	**(38)**	**37**

(all amounts in HRK millions)

8. TAXATION (continued)

INA Matica	Value adjustment of current assets	Value adjustment of tangible and intangible assets	Reversal of depreciation for impaired asset	Provision recorded for ENI tax case	Value adjustment of financial investments	Total
Balance at 31 December 2005	**7**	**57**	**(5)**	**19**	**13**	**91**
Credit to equity for the year	-	-	-	-	(17)	(17)
Reversal of temporary differences	(5)	(10)	(5)	(19)	-	(39)
Origination of temporary differences	22	42	-	23	3	90
Balance at 31 December 2006	**24**	**89**	**(10)**	**23**	**(1)**	**125**
Credit to equity for the year	-	-	-	-	(41)	(41)
Reversal of temporary differences	(18)	(42)	(6)	(23)	-	(89)
Origination of temporary differences	20	17	-	1	1	39
Balance at 31 December 2007	**26**	**64**	**(16)**	**1**	**(41)**	**34**

9. EARNINGS PER SHARE

	INA Group	
	2007	**2006**
Basic and diluted earnings per share (in HRK)	**86.9**	**88.3**

9. EARNINGS PER SHARE (continued)

The earnings used in the calculation of basic and diluted earnings per share are as follows:

Earnings	INA Group	
	2007	2006
Profit for the period attributable to equity holders of the parent	869	883
Earnings used in the calculation of total basic earnings per share	**869**	**883**

Number of shares	INA Group	
	2007	2006
	Number of shares	Number of shares
Weighted average number of ordinary shares for the purposes of basic earnings per share (in millions)	10	10

10. INTANGIBLE ASSETS

	INA Group	INA Matica
Balance at 01 January 2006	**551**	**538**
Additions	393	390
Amortisation	(18)	(13)
Impairment losses charged to profit or loss	(180)	(176)
Transfer to property, plant and equipment	(61)	(61)
Balance at 31 December 2006	**685**	**678**
Additions	274	267
Value adjusted of acquisition of Rotary Zrt.	(3)	-
Amortisation	(78)	(75)
Impairment losses charged to profit or loss	(40)	(39)
Transfer to property, plant and equipment	(177)	(176)
Balance at 31 December 2007	**661**	**655**

(all amounts in HRK millions)

11. PROPERTY, PLANT AND EQUIPMENT

a) By business segment

INA Group	Oil and gas exploration and production, gas storage and oilfield services	Refining and marketing	Retail	Other	Total
At 31 December 2006					
Cost	30,633	11,290	2,469	1,772	**46,164**
Accumulated depreciation	22,414	7,831	1,578	1,029	**32,852**
Net book value	**8,219**	**3,459**	**891**	**743**	**13,312**
At 31 December 2007					
Cost	32,184	12,207	2,499	2,064	**48,954**
Accumulated depreciation	23,220	8,023	1,500	1,320	**34,063**
Net book value	**8,964**	**4,184**	**999**	**744**	**14,891**

INA Matica	Oil and gas exploration and production, gas storage and oilfield services	Refining and marketing	Retail	Other	Total
At 31 December 2006					
Cost	27,373	10,184	2,370	849	**40,776**
Accumulated depreciation	20,192	7,188	1,483	448	**29,311**
Net book value	**7,181**	**2,996**	**887**	**401**	**11,465**
At 31 December 2007					
Cost	28,493	11,032	2,491	849	**42,865**
Accumulated depreciation	20,888	7,359	1,496	499	**30,242**
Net book value	**7,605**	**3,673**	**995**	**350**	**12,623**

(all amounts in HRK millions)

11. PROPERTY, PLANT AND EQUIPMENT (continued)

b) By asset type

INA Group

	Oil and gas properties	Land and buildings	Plant and machinery and assets under construction	Vehicles and office equipment	Collective Consumption assets	Total
Cost						
Balance at 31 December 2005	**20,226**	**9,874**	**12,964**	**1,218**	**62**	**44,344**
Additions	-	13	2,627	39	-	2,679
Capitalised decommission costs	(400)	-	-	-	-	(400)
Transfer from intangible assets	-	-	62	-	-	62
Impairment - Gas factory Pula	-	(35)	(6)	-	-	(41)
Transfers	1,603	134	(1,798)	61	-	-
Disposals	(12)	(15)	(292)	(68)	(11)	(398)
Strategic spare parts transferred to inventory	-	-	(82)	-	-	(82)
Balance at 31 December 2006	**21,417**	**9,971**	**13,475**	**1,250**	**51**	**46,164**
Additions	-	-	2,354	-	-	2,354
Assets acquired from asquisition of Rotary Zrt.	-	41	372	1	-	414
Capitalised decommission costs	77	-	-	-	-	77
Transfer from intangible assets	-	-	177	-	-	177
Transfers	519	360	(1,212)	333	-	-
Disposals	(9)	(52)	(94)	(71)	(6)	(232)
Balance at 31 December 2007	**22,004**	**10,320**	**15,072**	**1,513**	**45**	**48,954**

(all amounts in HRK millions)

11. PROPERTY, PLANT AND EQUIPMENT (continued)

b) By asset type (continued)

INA Group	**Oil and gas properties**	**Land and buildings**	**Plant and machinery and assets under construction**	**Vehicles and office equipment**	**Collective Consumption assets**	**Total**
Accumulated depreciation						
Balance at 31 December 2005	**16,594**	**6,653**	**8,010**	**1,036**	**42**	**32,335**
Charge for the year	382	214	261	88	1	946
Transfer from intangible assets	-	-	2	-	-	2
Impairment	(15)	(49)	(9)	-	-	(73)
Transfers	(40)	(11)	45	6	-	-
Disposals	(12)	(9)	(269)	(64)	(4)	(358)
Balance at 31 December 2006	**16,909**	**6,798**	**8,040**	**1,066**	**39**	**32,852**
Charge for the year	619	209	274	121	1	1,224
Acqusition of Rotary Zrt.	-	7	41	98	-	146
Impairment	33	7	3	(1)	-	42
Transfers	(22)	24	(2)	-	-	-
Disposals	(6)	(41)	(85)	(65)	(4)	(201)
Balance at 31 December 2007	**17,533**	**7,004**	**8,271**	**1,219**	**36**	**34,063**

(all amounts in HRK millions)

11. PROPERTY, PLANT AND EQUIPMENT (continued)

b) By asset type (continued)

INA Group	**Oil and gas properties**	**Land and buildings**	**Plant and machinery and assets under construction**	**Vehicles and office equipment**	**Collective Consumption assets**	**Total**
Carrying amount						
At 31 December 2007	**4,471**	**3,316**	**6,801**	**294**	**9**	**14,891**
At 31 December 2006	**4,508**	**3,173**	**5,435**	**184**	**12**	**13,312**

The carrying amount of INA Group property, plat and equipment increased in 2007 by HRK 1,579 million as a result of the current year investments in the amount of HRK 2,354 million, recognition of the investment in Rotary Zrt. in the amount of HRK 268 million, change in the estimated decommissioning costs of HRK 77 million, transfer from intangible assets in the amount of HRK 177 million, retirements in the amount of HRK 31 million, depreciation charge of HRK 1,224 million and impairment of assets per IAS 36 in the amount of HRK 42 million.

(all amounts in HRK millions)

11. PROPERTY, PLANT AND EQUIPMENT (continued)

b) By asset type (continued)

INA Matica	**Oil and gas properties**	**Land and buildings**	**Plant and machinery and assets under construction**	**Vehicles and office equipment**	**Collective Consumption assets**	**Total**
Cost						
Balance at 31 December 2005	**20,226**	**8,175**	**10,139**	**638**	**58**	**39,236**
Additions	-	13	2,318	-	-	2,331
Capitalized Decommission Costs	(400)	-	-	-	-	(400)
Transfer from intangible assets	-	-	62	-	-	62
Impairment - Gas Factory Pula	-	(35)	(6)	-	-	(41)
Transfers	1.602	114	(1.736)	20	-	-
Disposals	(12)	(8)	(288)	(11)	(11)	(330)
Strategic spare parts transferred to inventory	-	-	(82)	-	-	(82)
Balance at 31 December 2006	**21,416**	**8,259**	**10,407**	**647**	**47**	**40,776**
Additions	-	-	1,995	-	-	1,995
Capitalized Decommission Costs	77	-	-	-	-	77
Transfer from intangible assets	-	-	176	-	-	176
Transfers	519	299	(943)	125	-	-
Disposals	(9)	(55)	(78)	(11)	(6)	(159)
Balance at 31 December 2007	**22,003**	**8,503**	**11,557**	**761**	**41**	**42,865**

(all amounts in HRK millions)

11. PROPERTY, PLANT AND EQUIPMENT (continued)

b) By asset type (continued)

INA Matica	**Oil and gas properties**	**Land and buildings**	**Plant and machinery and assets under construction**	**Vehicles and office equipment**	**Collective Consumption assets**	**Total**
Accumulated depreciation						
Balance at 31 December 2005	**16,594**	**5,567**	**6,171**	**544**	**42**	**28,918**
Charge for the year	383	163	187	16	1	750
Additions	-	9	-	-	-	9
Transfer from intangible assets	-	-	1	-	-	1
Impairment	(15)	(49)	(9)	-	-	(73)
Transfers	(39)	(11)	44	6	-	-
Disposals	(12)	(4)	(261)	(13)	(4)	(294)
Balance at 31 December 2006	**16,911**	**5,675**	**6,133**	**553**	**39**	**29,311**
Charge for the year	620	157	193	45	1	1,016
Impairment	33	7	3	(1)	-	42
Transfers	(22)	24	-	(2)	-	-
Disposals	(5)	(37)	(73)	(8)	(4)	(127)
Balance at 31 December 2007	**17,537**	**5,826**	**6,256**	**587**	**36**	**30,242**

(all amounts in HRK millions)

11. PROPERTY, PLANT AND EQUIPMENT (continued)

b) By asset type (continued)

INA Matica	**Oil and gas properties**	**Land and buildings**	**Plant and machinery and assets under construction**	**Vehicles and office equipment**	**Collective Consumption assets**	**Total**
Carrying amount						
At 31 December 2007	**4,466**	**2,677**	**5,301**	**174**	**5**	**12,623**
At 31 December 2006	**4,505**	**2,584**	**4,274**	**94**	**8**	**11,465**

Additions to oil and gas properties and assets under construction include own costs capitalised in 2007 of HRK 13 million (2006: HRK 11 million). Included above are assets under construction of HRK 1,995 million (2006: HRK 2,318 million) which are not yet subject to depreciation.

11. PROPERTY, PLANT AND EQUIPMENT (continued)

I) Oil and gas reserves

The ability of the Group to realise the net book value of oil and gas properties (see b) above) in the future is dependent upon the extent to which commercially recoverable oil and gas reserves are in place. During 2007 Naftaplin performed assessment of the quantities of the Company's remaining proved developed oil and gas reserves which were commercially recoverable.

II) Ownership of land and buildings

Due to political developments in Croatia since 1990, certain local municipal land registers have not been fully established. The Company is in the process of registering, through the local courts in Croatia, its title to land and buildings included in the related balance of HRK 2,671 million in 2007 (see note b) above). To date, no claims have been made against the Company concerning its title to these assets.

III) Collective consumption assets

Collective consumption assets principally comprise domestic residential and holiday accommodation for the workforce of the Company and certain of its subsidiaries.

IV) Carrying value of refining and retail property, plant and equipment

At 31 December 2007 and 2006, the net book values of the Group's refining and retail property, plant and equipment were HRK 5,183 million and HRK 4,350 million, respectively.

Following the conclusion of the tender process initiated by the Government in 2002, and the resulting acquisition by MOL during the year of 25% plus one share of the Company, the Management Board has reviewed its plans for its refining and retail businesses.

As part of this review, the Management Board has assessed the carrying values of its Refining & Marketing (previously Refining and Wholesale) and Retail assets with reference to the discounted estimated future net cash flows from the refining and wholesale business, in accordance with the requirements of IAS 36. Based on these cash flow estimates, the Management Board have concluded that the recoverable amount of the Refining & Marketing assets, over the long-term, exceeds their net book value, and therefore no impairment has arisen.

The Management Board has also reviewed the Company's retail network for indications of any impairment in the carrying values of individual retail outlets on an outlet-by-outlet basis. Previously, the retail network had been considered as a single cash generating unit for impairment purposes. Following this review, the carrying values of a small number of retail outlets were written down to the estimated amount recoverable, resulting in an impairment loss of HRK 31 million reversed, and HRK 44 million charged (IAS 36), which has been included in impairment charges (net) in the years 2007.

(all amounts in HRK millions)

12. GOODWILL

	INA Group	
	2007	**2006**
Investment of Crosco, d.o.o. in Rotary Ztr. Hungary (100%)	191	-
Investment of INA, d.d. in Energopetrol d.d. Sarajevo (INA i MOL 67%)	132	-
Total investments	**323**	**-**
Net assets of Rotary Zrt.	(93)	-
Net assets of Energopetrol d.d. Sarajevo	(67)	-
Total net assets	**(160)**	**-**
Goodwill Rotary Zrt.	98	-
Goodwill Energopetrol d.d. Sarajevo	65	-
Total goodwill	**163**	**-**

On 28 March 2007, pursuant the agreement entered into by the Government of the Federation of Bosnia and Herzegovina and the INA-MOL Consortium, the INA Group invested HRK 132 million in the acquisition of Energopetrol d.d., Sarajevo and became, together with MOL, a major shareholder of the investee (INA d.d. and MOL Plc. hold an equity share of 33.5 % each).

On 1 October 2007, the subsidiary Crosco d.o.o. Zagreb, acquired the entire equity share in the company Rotary Drilling Co.LTD, headquartered in Nagykanizsa, for a consideration of HRK 191 million.

The business combinations with the companies Energopetrol d.d., Sarajevo and Rotary Drilling Co.LTD were initially recorded in the period in which the combinations were concluded on a provisional basis because the fair values of identifiable assets, liabilities and contingent liabilities of the investees could have been determined only provisionally and, at the INA Group, they were accounted for by reference to the provisional values. The INA Group will recognise each adjustment to the provisional amounts as part of the initial recognition of those transactions.

13. INVESTMENTS IN SUBSIDIARIES

	INA Matica	
	2007	**2006**
Equity investments in subsidiaries	1,286	978

In September 2007, Interina Holding Ltd. transferred all the shares of Interina Ltd. London to INA d.d. (the value of the equity investment amounted to HRK 28 million), a new company – INA-Kosovo d.o.o. Priština was established (with an equity contribution of HRK 10 million), and the impairment loss on equity investment to Crosco d.o.o., Zagreb was reversed (HRK 274 million). An impairment allowance of HRK 4 million was made with respect to the investment in Interina Ljubljana.

(all amounts in HRK millions)

13. INVESTMENTS IN SUBSIDIARIES (continued)

Basis of consolidated INA Group financial statements

The Company has the following principal subsidiaries, all of which are incorporated in Croatia unless otherwise stated. (*subsidiary owned directly by the Company)

2007

Name of company	Activity	Shareholding
Oilfield services		
*Crosco Naftni Servisi d.o.o. Zagreb	Oilfield services	100%
Crosco International Limited, Guernsey	Oilfield services	100%
Geotehnika International LLC, Abu Dhabi, UAE	Oilfield services	49%
Nordic Shipping Ltd, Marshall Islands	Platform ownership	100%
Sea Horse Shipping Inc, Marshall Islands	Platform ownership	100%
Crosco Drilling & Well Services (UK) Limited (until February 2007)	Financing	100%
Crosco International d.o.o. Slovenia	Oilfield services	100%
Rotary Zrt., Hungary (from October 2007)	Oilfield services	100%
Crosco International d.o.o. Tuzla, BiH (from October 2007)	Oilfield services	100%
Mideast Integrated Drilling & Well Services Company LLC, Oman	Oilfield services	49%
Oil exploration and production		
*INA Naftaplin International Exploration and Production Ltd, Guernsey	Oil exploration and production	100%
CorteCros d.o.o., Zagreb	Distribution of anti-corrosion products	60%
Tourism		
*Hostin d.o.o. Zagreb	Tourism	100%
Ancillary services		
*STSI integrirani tehnički servisi d.o.o. Zagreb	Technical services	100%
*Sinaco d.o.o. Sisak	Security	100%
*ITR d.o.o., Zagreb	Car rental	100%
Production and trading		
*Maziva Zagreb d.o.o. Zagreb	Production and lubricants trading	100%
*Proplin d.o.o. Zagreb	Production and LPG trading	100%

(all amounts in HRK millions)

13. INVESTMENTS IN SUBSIDIARIES (continued)

Basis of consolidated INA Group financial statements (continued)

2007 (continued)

Name of company	Activity	Shareholding
Trading and finance		
*Interina d.o.o. Ljubljana, Slovenia	Foreign trading	100%
*INA BH d.d. Sarajevo, Bosnia and Herzegovina	Foreign trading	100%
*Interina d.o.o., Sarajevo, Bosnia and Herzegovina (until 5 Dec. 2006 Interina d.o.o., Mostar)	Foreign trading	100%
*Interina d.o.o. Skopje, Macedonia (in bankruptcy)	Foreign trading	100%
*Interina Holding Ltd, London, UK	Foreign trading	100%
*Inter Ina Ltd, London, UK	Foreign trading	100%
Interina GmbH, Frankfurt, Germany (until January 2007)	Foreign trading	100%
*INA Hungary Kft., Budapest, Hungary	Foreign trading	100%
*FPC Ltd, London, UK	Foreign trading	100%
*Holdina (Guernsey) Ltd, Guernsey	Foreign trading	100%
Inter Ina (Guernsey) Ltd, Guernsey	Foreign trading	100%
Holdina (Cyprus) Ltd, Cyprus	Foreign trading	100%
Holdina (Ireland) Ltd, Ireland	Foreign trading	100%
*Holdina d.o.o. Sarajevo, Bosnia and Herzegovina	Foreign trading	100%
*Commercina AG, Switzerland (until December 2007)	Foreign trading	100%
*INA d.o.o. Beograd, Serbia	Foreign trading	100%
*INA Kosovo d.o.o. Priština (from October 2007)	Foreign trading	100%
*Infocentar d.o.o. Zagreb (in liquidation)	Information technology	100%
*Adriagas S.r.l. Milan, Italy	Pipeline project company	100%
*INA Crna Gora d.o.o. Kotor	Foreign trading	100%
*INA Crobenz d.d. Zagreb	Trading	98%
*Petrol d.d. Rijeka	Trading	83%
*INA-Osijek – Petrol d.d.	Trading	76%
*Polybit d.o.o. Rijeka (jointly controlled entity)	Oil production and trading	50%

In June 2007, the Management Board of INA d.d. made a decision to liquidate its subsidiary Interina Holding Ltd. In August 2007, the entire equity share of Holdina Ltd Guenrsey in Holdina d.o.o. Sarajevo was transferred to, and recorded at INA d.d. In October 2007, the Management Board passed a decision to merge Interina d.o.o. Sarajevo into Holdina d.o.o. Sarajevo (the merger is under way). Following the completion of the liquidation, the company Interina Frankfurt was deleted from the court register in January 2007, and the company Commercina ,AG, Zug in December 2007.

(all amounts in HRK millions)

14. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	INA Group		INA Matica	
	2007	2006	2007	2006
Investments in associates and joint ventures	124	57	189	57
	124	**57**	**189**	**57**

Name of company	Activity	% shareholding held by INA companies	INA Group 2007	INA Group 2006	INA Matica 2007	INA Matica 2006
Croplin d.o.o Zagreb	Gas trading	50%	35	35	35	35
SOL-INA d.o.o.	Industrial gas production	37.2%	22	22	22	22
ENERGOPETROL d.d., Sarajevo BiH (from March 2007)	Retail (oil and lubricants)	33.5%	67	-	132	-
Hayan Petroleum Company , Damascus, Syria	Operating company (oil exploration, development and production)	50%	-	-	-	-
INAgip d.o.o. Zagreb	Exploration and production operator (joint venture)	50%	-	-	-	-
ED INA d.o.o. Zagreb	Research, development and hydrocarbon production	50%	-	-	-	-
Genan Trading Services Co. WLL Doha, Qatar	Maintenance and technical engineering services	49%	-	-	-	-
Belvedere d.d., Dubrovnik	Hotel trade	31.8%	-	-	-	-
Marina Petroleum Company Egypt, Cairo (from July 2007)	Exploration and production operator	25%	-	-	-	-
Adria LNG Study Company Ltd	Oil exploration	22.2%	-	-	-	-
			124	**57**	**189**	**57**

(all amounts in HRK millions)

14. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (continued)

Investment in Energopetrol

On 8 September 2006 INA Matica, together with MOL under MOL/INA Consortium, concluded an Agreement on recapitalisation of Energopetrol d.d with the Government of the Federation of Bosnia and Herzegovina to take over 67% share of Energopetrol d.d shared equally by both parties (33.5% owned by each party). Based on the concluded Agreement on recapitalisation the Consortium should pay (INA and MOL, each 50% of the amount):

a) KM 10.2 million for the Government of the Federation of Bosnia and Herzegovina with respect to recapitalisation rights; and
b) KM 60.195 million to Energopetrol with respect to recapitalisation, which Energopetrol will use to settle its debt (tax liabilities, amounts due to banks and creditors, and other liabilities) as of 31 December 2004;

The amounts were paid in 2007.

15. INVESTMENTS IN OTHER COMPANIES

	INA Group		INA Matica	
	2007	**2006**	**2007**	**2006**
Financial assets at fair value through profit or loss	20	26	20	20
Long-term loans	18	-	384	-
Deposits	24	22	22	22
Other investments	**62**	**48**	**426**	**42**

(all amounts in HRK millions)

16. LONG-TERM RECEIVABLES

INA Group	**2007**	**2006**
Amounts receivable for apartments sold	169	180
Other long-term receivables	8	1
	177	**181**

INA Matica	**2007**	**2006**
Amounts receivable for apartments sold	168	180
Long-term receivables from Proplin	68	87
Long-term receivables from Crosco	32	32
Long-term receivables from STSI	15	15
Other long-term receivables	7	25
	290	**339**

Prior to 1996, the Company had sold apartments it owned to its employees as provided by the laws of the Republic of Croatia. The properties were generally sold on credit, and the related housing receivables are repayable on a monthly basis over periods of 20-35 years. The amounts payable to Croatian state, accounting for 65% of the value of sold apartments are included in other non-current liabilities (Note 28). The receivables are secured by mortgages over the sold apartments. The principle is presented in the receivable amounts. The amounts do not include the interest portion.

(all amounts in HRK millions)

17. AVAILABLE-FOR-SALE ASSETS

Company available for sale

Name of the Company	% shareholding held by INA	Activity	2007	2006
Jadranski Naftovod d.d. (JANAF d.d.)	16.00%	Pipeline ownership and operations	610	405
OMV Slovenia d.o.o., Koper	7.75%	Oil trading	31	31
Plinara d.o.o. Pula	49%	Distribution and oil trading	17	
ENERGO METAN SAMOBOR d.o.o. (until December 2007)	33%	Distribution of gas	-	11
Impairment provision			(2)	(11)
			656	**436**

Pursuant to a Government decision of 8 March 2002, the company transferred to the Government 21.37% of the equity in JANAF d.d., reducing the company's investment to 16.00%. As explained in note 37, a substantial portion of the trading income of JANAF d.d. is derived from INA. The value of investment in JANAF d.d. is based on market value of its share quoted on the Zagreb Stock Exchange at 31 December 2007. The net book value of the equity investment in JANAF rose by HRK 205 million compared to the balance at 31 December 2006 as a result of the increase in the value of the JANAF shares on the Zagreb Stock Exchange. The market value of the shares (118 855) at 31 December 2007 was HRK 5,130 per share (2006: HRK 3,400 per share).

The net book value of the equity investment in PLINARA d.o.o, Pula, rose compared to the balance at 31 December 2006 due to an additional capital contribution made in kind (equipment) equivalent to HRK 17 million, in accordance with the underlying contract.

Under the Decision of the Management Board of INA d.d. 19 September 2007, the equity investment (a shareholding of 33 %) in the company Energo metan d.o.o. Samobor was sold under the terms and conditions of the proposal of Monter-strojarska montaža d.d. Zagreb and the Town of Samobor for HRK 5 million, by which a loss on the sale in the amount of HRK 6 million was incurred.

(all amounts in HRK millions)

18. INVENTORIES

	INA Group		INA Matica	
	2007	2006	2007	2006
Crude oil	637	299	637	299
Gas inventories	109	143	99	131
Merchandise	236	307	189	222
Raw material	273	232	180	187
Spare parts, materials and supplies	416	395	103	142
Work in progress	628	696	603	604
Refined products	824	766	770	782
	3,123	**2,838**	**2,581**	**2,367**

There is no material difference between the carrying value and replacement cost, at the balance sheet date, of the stocks of crude oil and refined products of the Company and the Group.

Pursuant to the Act on Oil and Oil Product Market (Official Gazette No. 57/2006), which modified the basis for calculating the obligatory oil stocks, the Croatian Government issued a Decision on the Quantity and Structure of Obligatory Oil and Refinery Product Stocks for the Year 2007. According to the Decision, The Ministry of Economy, Labour and Entrepreneurship determined the share of INA d.d. in maintaining the obligatory stock for the year 2007 in quantitative (tons) and structural terms for all the three refinery products prescribed by the Act. At 31 December 2007 the obligatory stock of INA amounted to 112 611 tons.

Based on realised net import (difference between import and export), obligatory INA stock as at 31 December 2006 amounted to 466,173 oil units (20% of prior-year net import), out of total 558,228 oil units held on inventories balances as at year-end.

19. TRADE RECEIVABLES, NET

	INA Group		INA Matica	
	2007	2006	2007	2006
Trade receivables	3,367	2,897	2,287	1,918
Allowance for doubtful receivables	(295)	(365)	(195)	(196)
	3,072	**2,532**	**2,092**	**1,722**

Other income in 2007 includes an amount of 9 million (HRK 11 million in 2006) relating to collection of receivables previously provided for.

(all amounts in HRK millions)

19. TRADE RECEIVABLES, NET (continued)

Provided below is an ageing analysis of trade receivables outstanding and not provided for:

	INA Group		INA Matica	
	2007	**2006**	**2007**	**2006**
60-90 days	69	61	42	39
90-120 days	26	13	26	4
120+ days	85	36	54	-
	180	**110**	**122**	**43**

Trade receivables are carried at fair value, under consideration of the provisioning policy. According to the policy, all receivables outstanding for over 120 days from maturity are provided against.

The exception to the 2007 policy comprises receivables from HEP and Croatia Airlines in respect of the obligations of INA Matica to the Croatian Agency for Obligatory Oil and Petroleum Product Stock (hereinafter: the Agency) amounting to HRK 54 million. Since a subsequent decision of the Agency will represent a call for INA Matica to make the payment, it will also the render payable the amounts that HEP and Croatia Airlines owe to INA Matica. The decision is still pending. Therefore, the receivables are not considered bad and doubtful, and as a result, no provisioning policy applies to them.

	INA Group		INA Matica	
	2007	**2006**	**2007**	**2006**
Balance at beginning of the year	365	419	196	239
Impairment losses recognised on receivables	31	28	22	15
Amounts written off as uncollectible	(46)	(29)	(14)	(47)
Amounts recovered during the year	(55)	(53)	(9)	(11)
Balance of the end of the year	**295**	**365**	**195**	**196**

(all amounts in HRK millions)

19. TRADE RECEIVABLES, NET (continued)

The ageing analysis of trade receivables provided for:

	INA Group		INA Matica	
	2007	**2006**	**2007**	**2006**
121-150 days	9	8	6	1
151-180 days	8	11	4	1
181-365 days	12	27	6	10
366+ days	266	319	179	184
	295	**365**	**195**	**196**

20. OTHER RECEIVABLES

	INA Group		INA Matica	
	2007	**2006**	**2007**	**2006**
Tax prepayments	548	607	483	523
Other	126	113	100	144
	674	**720**	**583**	**667**

21. OTHER CURRENT ASSETS

	INA Group		INA Matica	
	2007	**2006**	**2007**	**2006**
Short-term loans and deposits	34	42	20	73
Current portion of long terms loans	-	-	58	-
Other	16	11	12	11
	50	**53**	**90**	**84**

(all amounts in HRK millions)

22. PREPAID EXPENSES AND ACCRUED INCOME

	INA Group		INA Matica	
	2007	2006	2007	2006
Prepayments for custom taxes, duties and other charges	133	176	116	109
Accrued income	36	22	24	66
Other	14	41	11	33
	183	**239**	**151**	**208**

23. CASH AND CASH EQIVALENTS

Cash and cash equivalents comprise of cash held by the Group and short-term bank deposits. The carrying amount of these assets approximates their fair value.

	INA Group		INA Matica	
	2007	2006	2007	2006
Cash on hand	3	8	-	1
Cash in the bank	674	580	262	183
Other	43	42	37	42
	720	**630**	**299**	**226**

Credit risk

The Group's principal financial assets are bank balances and cash, trade and other receivables, and investments.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

(all amounts in HRK millions)

24. BANK LOANS AND OVERDRAFTS AND CURRENT PORTION OF LONG-TERM LOANS

	INA Group		INA Matica	
	2007	**2006**	**2007**	**2006**
Overdrafts and short-term loans	1,664	1,935	97	159
Current portion of long-term loans (note 27)	129	578	45	506
	1,793	**2,513**	**142**	**665**

	Repayment deadline	Security/ Guarantee	**2007**	**2006**
BNP Paribas (USD)	by 31.05.2008.	INA d.d. guarantee	455	461
Nova Ljubljanska banka, Ljubljana (SIT)	by 03.06.2008.	-	6	4
Natexis Bank (USD)	by 31.12.2008.	INA d.d. guarantee	-	59
Bank Tokyo Mitsubishi (USD)	by 14.09.2008.	INA d.d. guarantee	175	230
Probanka d.d. (SIT)	by 18.03.2007.	-	-	1
Raiffeisenbank Zagreb (EUR, USD i HRK)	by 28.02.2008.	-	29	37
Bank Austria Creditanstalt (USD)	by 20.06.2008.	-	-	325
Zagrebačka banka, Zagreb (EUR, USD,HRK)	by 30.06.2008.	-	22	-
Privredna banka Zagreb, Zagreb (HRK)	by 30.09.2008.	-	57	31
Societe Generale - Splitska banka (USD, HRK)	by 30.09.2008.	-	35	57
Slavonska banka Osijek	by 10.10.2008.	-	18	21
Fortis (USD)	by 17.10.2008.	INA d.d. guarantee	476	244
Citibank Int. (USD)	by 03.07.2008.	-	259	306
OTP bank NYRT (HUF)	by 31.03.2008.	-	35	-
Current portion of long-term loans (note 27)			84	72
INA Matica				
Overdrafts and short term loans			97	159
Current portion of long-term loans (note 27)			45	506
Total INA Matica			**142**	**665**
Total INA Group			**1,793**	**2,513**

(all amounts in HRK millions)

24. BANK LOANS AND OVERDRAFTS AND CURRENT PORTION OF LONG-TERM LOANS (continued)

In 2007, interest on the above loans was paid at rates based on LIBOR plus up to 1.25% The Company uses several short-term bank loans to manage its short-term cash flow cycle, including facilities arranged through Interina Guernsey and Inter Ina Limited, wholly owned subsidiaries. These loans were typically settled in full every 90 days on a revolving basis.

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

	INA Group		INA Matica	
	2007	**2006**	**2007**	**2006**
Trade payables	3,532	2,900	1,876	1,935
Production and sales taxes payable and other taxes	569	478	486	432
Payroll taxes and contributions	79	71	49	47
Payroll and other	269	264	86	146
	4,449	**3,713**	**2,497**	**2,560**

The directors consider that the carrying amount of trade payables approximates their fair values.

26. ACCRUALS AND DEFERRED INCOME

	INA Group		INA Matica	
	2007	**2006**	**2007**	**2006**
Accrued interest – long-term loans	37	22	33	35
Accrued expenses	120	98	45	36
Other	41	37	19	44
	198	**157**	**97**	**115**

(all amounts in HRK millions)

27. LONG-TERM LOANS

Long-term loans are denominated in a variety of foreign currencies and are subject to a range of interest rates. The majority of these loans are secured by bills of exchange held by Croatian banks. The loans of the Group outstanding at 31 December 2007 are analysed as follows:

	Type of loan	Loan currency	2007	2006
PBZ-API 80003	Loan	US$	2	2
Erste & Steiermarkische bank	Loan (equipment)	USD, EUR	19	28
Viktor Lenac	Loan (equipment)	various	-	4
Jugobanka	Loan (equipment)	YEN	-	14
EBRD	Environmental	EUR	121	157
Mizuho/PBZ	Syndicates/Revolving	US$	-	1,673
Bayerische Landesbank	Syndicates/Revolving	US$	2,891	-
			3,033	**1,878**
Due within 1 year			(45)	(506)
Total long-term loans – INA Matica			**2,988**	**1,372**
Other long term group loans			226	125
Due within 1 year			(84)	(72)
Total long-term loans – INA Group			**3,130**	**1,425**

INA Group	Weighted average interest rate 2007	Weighted average interest rate 2006	2007	2006
	%	%		
Bank loans in US$	5.26	6.25	3,097	1,804
Bank loans in EUR	5.31	6.29	162	177
Bank loans in YEN	-	5.17	-	14
Bank loans in DKK	-	3.25	-	1
Bank loans in SIT	-	5.07	-	5
Bank loans in HRK	-	-	-	2
Total			**3,259**	**2,003**
Payable within 1 year			(129)	(578)
Total long-term loans - INA Group			**3,130**	**1,425**

(all amounts in HRK millions)

27. LONG-TERM LOANS (continued)

INA Matica

	Weighted average interest rate	Weighted average interest rate		
	2007	**2006**	**2007**	**2006**
	%	%		
Bank loans in US$	5.10	5.31	2,897	1,688
Bank loans in EUR	5.24	5.07	136	175
Bank loans in YEN	-	5.17	-	14
Bank loans in DKK	-	3.25	-	1
Total			**3,033**	**1,878**
Payable within 1 year			(45)	(506)
Total long-term loans - INA Matica			**2,988**	**1,372**

The maturity of loans may be summarised as follows:

	INA Group		**INA Matica**	
	2007	**2006**	**2007**	**2006**
Current portion of long-term debt	129	578	45	506
Payable within one to two years	51	974	44	938
Payable within two to three years	157	383	35	381
Payable within three to four years	20	37	17	35
Payable within four to five years	2,895	20	2,892	18
Payable within over five years	7	11	-	-
Total	**3,259**	**2,003**	**3,033**	**1,878**

(all amounts in HRK millions)

27. LONG-TERM LOANS (continued)

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

	INA Group	INA Matica
At 31 December 2005	**1,224**	**972**
New borrowings raised	1,375	1,375
Amounts repaid	(454)	(346)
Foreign exchange losses	(142)	(123)
At 31 December 2006	**2,003**	**1,878**
Payable within 1 year (included within bank loans and overdrafts – note 24)	(578)	(506)
Payable after more than 1 year	1,425	1,372
At 31 December 2006	**2,003**	**1,878**
New borrowings raised*	3,873	3,695
Amounts repaid	(2,302)	(2,231)
Foreign exchange losses	(315)	(309)
At 31 December 2007	**3,259**	**3,033**
Payable within 1 year (included within bank loans and overdrafts – note 24)	(84)	(45)
Payable after more than 1 year	3,175	2,988

*New loans raised by the INA Group in 2007 amount to HRK 3,873 million, of which HRK 173 million were assumed on the acquisition of the company Rotary Zrt.

The principal long-term loans outstanding at 31 December 2007 and the principal new loans drawn down and repaid during 2007 were as follows:

Privredna banka Zagreb

The remaining long-term debt of the Company towards Privredna banka Zagreb amounts to HRK 2 million and represents a debt under the Refinanced Bonds Agreement for the issue of API bonds. The debt is dormant and will be refinanced.

Erste & Steiermaerkische Bank and Viktor Lenac

Erste & Steiermaerkische Bank and Viktor Lenac extended loans for the financing of imported equipment necessary for the construction and delivery of the "Labin" platform. The balance outstanding at 31 December 2007 was HRK 19 million and at 31 December 2006 31.5 million (in US$, EUR). Interest is payable on 31 January and 31 July annually, at various agreed rates.

(all amounts in HRK millions)

27. LONG-TERM LOANS (continued)

EBRD

In 2001 the Company concluded a long-term agreement with EBRD for a loan in the amount of EUR 36 million to finance environmental projects at INA. The loan utilisation period expired on 31 December 2005, with EUR 31.7 million drawn down until that date. A decision was made not to extend the utilisation period. The loan is repayable in 12 semi-annual instalments, with the last instalment due on 30 March 2011. The interest rate on this loan facility is 6-month EURIBOR + 1 percentage point. The balance outstanding at 31 December 2007 amounts to EUR 16.6 million, or HRK 121.4 million, and at 31 December 2006 it amounted to EUR 21.3 million, or HRK 156.6 million.

Bayerische Landesbank

In 2007, the Company entered into a new loan agreement with Bayerische Landesbank for a loan facility in the amount of USD 1 billion. The loan funds are intended to finance the regular business of INA d.d., mainly to repay the syndicated loan of USD 400 million agreed earlier and to modernise the refineries. The loan period is five years and the agreed interest rate is USLIBOR plus a margin of 0.25-0.40% annually. During 2007, USD 580 million were drawn under this facility. The balance outstanding at 31 December 2007 amounts to HRK 2.9 billion.

Compliance with loan agreements

During 2007 INA d.d. and INA Group repaid all of their liabilities in respect of loans (principal, interest, and fees) on a timely basis, and there were no instances of default or delinquency in this respect.

28. OTHER NON-CURRENT LIABILITIES

	INA Group		INA Matica	
	2007	**2006**	**2007**	**2006**
Liabilities to Government for sold apartments	93	100	93	100
Deferred income for sold apartments	51	53	51	53
	144	**153**	**144**	**153**

The long-term payable to the government relates to obligation arising on the sale of housing units to employees under the government program (Note 16). According to the law regulating housing sales, 65% of the proceeds from the sale of apartments to employees were payable to the state at such time as the proceeds were collected by the Company. According to the law, INA has no liability to remit the funds unless and until they are collected from the employee.

(all amounts in HRK millions)

29. PROVISIONS

INA Group	Decommission Charges	Tax authority claims	Legal claims	ENI project claims	Redundancy costs	Tax obligation claims of Holdina Sarajevo	Other	Total
At 31 December 2005	**1,304**	**193**	**141**	**93**	**68**	**53**	**56**	**1,908**
Charge for the year	82	-	25	34	24	2	-	**167**
Effect of change in estimates, capitalised	(400)	-	-	-	-	-	-	**(400)**
Provision utilised during the year	(44)	(193)	(3)	(12)	(37)	-	(25)	**(314)**
At 31 December 2006	**942**	**-**	**163**	**115**	**55**	**55**	**31**	**1,361**
Charge for the year	89	-	124	7	4	-	49	273
Effect of change in estimates, capitalised	76	-	-	-	-	-	-	76
Provision utilised during the year	(38)	-	(10)	(115)	(42)	-	(52)	(257)
At 31 December 2007	**1,069**	**-**	**277**	**7**	**17**	**55**	**28**	**1,453**

INA Matica	Decommission Charges	Tax authority claims	Legal claims	ENI project claims	Redundancy costs	Other	Total
At 31 December 2005	**1,304**	**193**	**141**	**93**	**60**	**22**	**1,813**
Charge for the year	82	-	25	34	-	1	**142**
Effect of change in estimates, capitalised	(400)	-	-	-	-	-	**(400)**
Provision utilised during the year	(44)	(193)	(3)	(12)	(37)	-	**(289)**
At 31 December 2006	**942**	**-**	**163**	**115**	**23**	**23**	**1,266**
Charge for the year	89	-	84	7	12	9	**201**
Effect of change in estimates, capitalised	76	-	-	-	-	-	**76**
Provision utilised during the year	(38)	-	(4)	(115)	(23)	(7)	**(187)**
At 31 December 2007	**1,069**	**-**	**243**	**7**	**12**	**25**	**1,356**

(all amounts in HRK millions)

29. PROVISIONS (continued)

	INA Group		INA Matica	
	2007	**2006**	**2007**	**2006**
Analysed as:				
Current liabilities	47	175	25	143
Non-current liabilities	1,406	1,186	1,331	1,122
	1,453	**1,361**	**1,356**	**1,265**

Decommissioning charges

Provision relates to the decommissioning and removal of assets, such as an oil and gas production facility. The initial recognition of the decommissioning provision is treated as part of the cost of the related property, plant and equipment. Subsequent adjustments to the provision arising from changes in estimates are also treated as an adjustment to the cost of the property, plant and equipment and thus dealt with prospectively in the income statement through future depreciation of the asset. As of 31 December 2007, the Company recognised a decommissioning provision for 51 of those fields.

Legal claims

The Company has provided for legal contingencies and the most significant provisions for legal claims are as follow:

GWDF Partnership München and GWDF Limited Cyprus

GWDF Partnership München and GWDF Limited Cyprus filed a claim against INA d.d. Zagreb and INA-Naftaplin International Exploration, Channel Islands, for HRK 58 million on the grounds of the damage incurred to the claimants for unfounded termination of negotiations. This resulted in refrain from signing the contract on the transfer of shares between GWD Ltd Cyprus and INA -Naftaplin International Exploration. INA d.d. filed a counterclaim in September 2007, disputing both the grounds and the amount of the claim, claiming that the claimants abandoned the negotiations because of a business decision and they were the ones negotiating in conflict with the principles of conscientiousness and fairness.

29. PROVISIONS (continued)

Legal claims (continued)

"Veronika", d.o.o., Zagreb

The claim by "Veronika" d.o.o., Zagreb against INA d.d. is for HRK 40 million (previously HRK 44 million; however the claimant lowered the claim in 2007, by withdrawing a part of the claim). The plaintiff filed a legal action for damages on the grounds of discontinued gas supply, resulting in a loss of heat to greenhouses where the plants were subsequently frozen and destroyed. The Commercial Court ruled twice in favour of the plaintiff.The High Commercial Court annulled the judgement of the Commercial Court in Zagreb and returned the case for re-trial. In 2007, the Commercial Court in Zagreb issued a judgement by which it acknowledged the claim presented by the plaintiff amounting to HRK 40 million. An appeal has been launched and the decision of the High Commercial Court is still pending.

Uljanik Pula

HRK 23 million have been included in the books of INA d.d. in respect of legal actions between Uljanik Pula and three plaintiffs:

- Uljanik Brodogradilište, d.d.
- Uljanik Strojogradnja, d.d. , and
- Uljanik Tesu, d.d.

The plaintiffs filed legal actions claiming damages for the loss incurred as a result of unjustified interruption in the gas supply in the period 18 December 1996 - 21 February 1997 by INA, resulting in a loss to the plaintiff's production process. Uljanik Brodogradilište, d.d. claims indemnification for penalty interest resulting from delayed delivery of ships, loss of advances received from customer, unrealised production, payments made to employees during the waiting period. Uljanik Strojogradnja, d.d. seeks reimbursement of damage due to a higher level of scrap and payments made to employees during the waiting period; and Uljanik Tesu d.d. claims indemnification for payments made to the workers for the waiting period.

The final outcome of the litigation cannot be estimated at present, as the first-instance process is still pending, which includes the presentation of evidence to corroborate the grounds for the claim; the evidence as to the amount of the damage incurred, although proposed by plaintiffs, has still not be presented. The first-instance decision has still not been promulgated. However, either party is very likely to lodge an appeal at the High Commercial Court against the first-instance decision.

INA d.d., as defendant, filed several complaints, first through its legal department and subsequently through its attorney. Presentation of evidence to corroborate the claim is in progress. However, the plaintiffs have still not managed to prove that INA was their business partner in the delivery of gas, nor has a complaint been lodged in this respect.

29. PROVISIONS (continued)

Legal claims (continued)

"Mimal 94", d.o.o., Zagreb

The case initiated by „Mimal d.o.o.", Zagreb against INA d.d. amounts to HRK 20 million. MIMAL 94 d.o.o., as plaintiff, filed a claim against INA d.d. before the Commercial Court in Zagreb on 31 August 2005, regarding the delivery of 2 000 tons of oil and 1 000 tons of fertiliser KAN 27% or demanding that the defendant delivers 2 700 tons of oil or pay the counter value of the oil quantity at the price effective on the date on which the first-instance court decision becomes final, including penalty interest accruing from the date of filing the claim until payment. Furthermore, the plaintiff claims disbursement of fee for the use of funds paid in the period from payment to the date on which the claim was filed, at the rate chargeable by Privredna banka Zagreb to the defendant for the use of working capital in the period.

Several hearings have taken place so far. Among others, the defendant has presented a complaint on the grounds of passive legitimation and statutory limitation. The first-instance court decision is still pending.

"Katran" d.d., Zagreb

The case filed by "Katran", d.d., Zagreb amounts to HRK 14 million. The plaintiff filed a legal action for reimbursement of damage under the sales contract for bitumen as specified in the contract. The plaintiff claims that the defendant charged the goods at a price significantly higher then the contract price and that the delivery of the goods was conditioned by providing advance payments. The legal action is expected to be completed within a year, i.e. after an expert witness is heard, who will prepare the findings.

According to the expert witness, the plaintiff overpaid HRK 3 million for the bitumen delivered by MGP, given that the bitumen was paid at higher prices from those charged by the defendant. Therefore, it is not unlikely that the court could acknowledge the claim of the plaintiff.

City of Sisak

The City of Sisak, as claimant, has filed a claim for indemnity in respect of harmful emissions and for not preventing their excessive dispersion. The claimed amount is HRK 11 million. The process is at initial stages. A more detailed claim, including the specification of the claimed amount, of the claimant is expected following the decision on the competent court, when it will be possible to assess more precisely the legal positions of the parties to the case.

ENI project claims

On 27 February 1996 INA signed the Production Sharing Agreement (PSA) with Agip Croatia B.V. (now called ENI Croatia B.V.). Pursuant to the Article 15.2 of this Agreement, INA shall assume, discharge and pay, on behalf of AGIP any and all Croatian taxes imposed on income or profits derived by AGIP from Petroleum Operations under this PSA. The provision amounts relate to the tax obligation to settle all tax liabilities of AGIP under any current or future laws of the Republic of Croatia, including the personal income tax for the staff.

29. PROVISIONS (continued)

ENI project claims (continued)

On 8 November 2005 parties signed Amendment N. 5 to the „Ivana Gas Field“ PSA and Amendment N. 5 to the “Aiza Laura Contract Area“ PSA.

Amendments N.5 include the “Procedure for the Calculation of the Tax on Profit“ in order to provide operating method related to:

- The calculation and payment of the Croatian taxes on corporate income or profits derived by ENI from petroleum operations under PSAs to be assumed, discharged and paid by INA to ENI; and
- The calculation and payment of the Gross-up.

In 2005 the tax obligation regarding 2003 and 2004 was settled following the resolution reached in 2005 of the total obligation in respect of taxes of HRK 111 million.

In 2006 the tax obligation regarding 2005 in the amount of HRK 93 million was settled, whereas the tax liability in respect of 2006 has been accrued at HRK 189 million. Out of the accrued tax liability, HRK 75 million was paid during 2006. The outstanding portion in respect of the 2006 taxes payable was paid on the final calculation in 2007.

ENI calculated a tax obligation for 2007 in the amount of HRK 81 million. During 2007, HRK 138 million were paid through tax prepayments. The excess of HRK 57 million will be used as tax prepayment in 2008.

Tax obligation claims of INA d.d. subsidiaries in Bosnia and Herzegovina

Subsidiary INA BH Sarajevo d.o.o., by the final decision of the Tax Administration of the Cantonal Office Sarajevo was released from tax obligation previously set by the temporary decision of Tax Administration. Subsidiary HOLDINA Sarajevo d.o.o. recorded provisions for tax obligations in its books.

30. RETIREMENT AND OTHER EMPLOYEE BENEFIT SCHEMES

Defined Benefit Schemes

According to the Collective Agreement the Group has obligation to pay jubilee awards, retirement and other benefits to employees. The Group operates defined benefit schemes for qualifying employees. Under the schemes, the employees are entitled to an early retirement benefit in the net amount of HRK 8,000. For regular retirement (no early retirement bonus), employees receive HRK 16,000 net, of which HRK 8,000 are taxable. No other post-retirement benefits are provided. Jubilee awards are paid out according to the following fixed amounts and anniversary dates:

(all amounts in HRK millions)

30. RETIREMENT AND OTHER EMPLOYEE BENEFIT SCHEMES (continued)

- HRK 2,000 for 10 years of continuous service
- HRK 2,500 for 15 years of continuous service
- HRK 3,000 for 20 years of continuous service
- HRK 3,500 for 25 years of continuous service
- HRK 4,000 for 30 years of continuous service
- HRK 4,500 for 35 years of continuous service
- HRK 5,500 for 40/45 years of continuous service.

The net amounts specified above include the taxable portion, i.e. the portion subject to all applicable taxes and contributions.

In respect of the Group's personnel who are employed in Croatia, such social payments as are required by the authorities are paid by the respective Group companies. These contributions form the basis of social benefits payable out of the Croatian national pension fund to Croatian employees upon their retirement.

The actuarial valuations of the present value of the defined benefit obligation were carried out at 31 December 2007 by I.A.C.T.A. Actuarial Consulting Ltd . In 2007, the Company made a provision of HRK 52 million and HRK 21 million in respect of jubilee awards and regular retirement allowance, respectively.

The present value of the defined benefit obligation, the related current service cost and past service cost were measured using the projected credit unit method.

	Valuation at	
Key assumptions used:	**2007**	**2006**
Discount rate	5.00%	5.00%
Turnover rate	2.50%	2.50%
Mortality table	HR2004 70,00%	HR2004 70,00%
Average expected remaining working lives (in years)	18	16

The amounts recognised in profit from retirement and other employee benefits are as follows:

	INA Matica	
	2007	**2006**
Cost of current period	4	3
Interest	3	2
Actuarial gains or losses	14	(5)
	21	**-**

(all amounts in HRK millions)

30. RETIREMENT AND OTHER EMPLOYEE BENEFIT SCHEMES (continued)

The amount included in the balance sheet arising from the Group's obligations in respect of its defined benefit retirement benefit schemes is as follows:

	INA Group		INA Matica	
	2007	**2006**	**2007**	**2006**
Present value of defined benefit obligations	106	80	73	53
Liability recognised in the balance sheet	**106**	**80**	**73**	**53**

	INA Group		INA Matica	
	2007	**2006**	**2007**	**2006**
This amount is presented in the balance sheet as follows:				
Current liabilities	15	8	8	5
Non-current liabilities	91	72	65	48
	106	**80**	**73**	**53**

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

	INA Matica	
	2007	**2006**
At 1 January	53	53
Recognised cost in the current period	4	3
Interest	3	2
Actuarial gains or losses	21	1
Payments	(8)	(6)
At 31 December	**73**	**53**

(all amounts in HRK millions)

31. SHARE CAPITAL

	INA Group and INA Matica	
	2007	**2006**
Issued and fully paid:		
10 million shares (HRK 900 each)	**9,000**	**9,000**

The share capital of the Company was redenominated from DEM into HRK as part of the Company's formal registration with the Croatian courts in April 1995.

Pursuant to a resolution of the Commercial Court in October 2001, the share capital of the Company was adjusted to HRK 9,000 million. The adjustment was effected through a transfer from other reserves.

The Company's share capital consists of 10 million authorised and issued shares of par value HRK 900 each. Each share carries one vote and entitles to dividends.

32. REVALUATION RESERVES

	INA Group and INA Matica	
	2007	**2006**
Balance at beginning of year	66	(96)
Increase arising on revaluation available for sale securities (Janaf)	206	179
Decrease arising on revaluation available for sale securities (Plinara Pula)	(2)	-
Deferred tax	(41)	(17)
Balance at the end of year	**229**	**66**

(all amounts in HRK millions)

33. OTHER RESERVES

The reserves of the Group include amounts in respect of accumulated surpluses and deficits, revaluations of property, plant and equipment and foreign exchange gains and losses which have arisen over many years prior to 1993. For several years, the Croatian economy was subject to hyperinflation and, prior to 31 December 1993, neither the Company nor the Group had been subject to audit. For these reasons, it was not practicable to analyse the composition of the reserves of the Company or the Group as at 31 December 1993 into their constituent parts.

For subsequent periods, the results of the transactions of the Group, to the extent that they affect reserves, are accounted for within appropriate reserve accounts. The reserves of the Group as at 31 December 1993 were combined at that date, and are separately stated below.

Movements on reserves during the year were as follows:

INA Group

	Combined reserves at 31 December 1993	Foreign currency translation reserves	Other reserves	Total
At 31 December 2005	**2,132**	**(189)**	**447**	**2,390**
Movements during 2006	-	(43)	-	(43)
At 31 December 2006	**2,132**	**(232)**	**447**	**2,347**
Movements during 2007	-	(46)	-	(46)
At 31 December 2007	**2,132**	**(278)**	**447**	**2,301**

INA Matica

	Combined reserves at 31 December 1993	Other reserves	Total
At 31 December 2006	1,667	285	**1,952**
At 31 December 2007	1,667	285	**1,952**

(all amounts in HRK millions)

34. RETAINED EARNINGS

	INA Group Retained earnings/ (Accumulated deficit)	INA Matica Retained earnings/ (Accumulated deficit)
At 31 December 2005	**483**	**(119)**
Profit for the year	883	670
At 31 December 2006	**1,366**	**551**
Dividends paid	(131)	(131)
Profit for the year	869	990
At 31 December 2007	**2,104**	**1,410**

35. MINORITY INTERESTS

	INA Group	
	2007	**2006**
Balance at beginnig of year	7	6
Share of profit for the year	2	1
Balance at end of year	**9**	**7**

(all amounts in HRK millions)

36. SEGMENT ANALYSIS

BY BUSINESS

INA Group

Year 2007	Exploration and production	Refining and marketing	Retail	Corporate and other	Elimination	Total
Sales to external customers	5,907	14,040	5,792	109	-	25,848
Inter-segment sales	2,226	4,724	58	575	(7,583)	-
Total revenue	**8,133**	**18,764**	**5,850**	**684**	**(7,583)**	**25,848**
Operating expenses, net of other operating income	(6,088)	(18,705)	(5,940)	(1,678)	7,583	(24,828)
Profit/(loss) from operations net of other income	**2,045**	**59**	**(90)**	**(994)**	**-**	**1,020**
Net finance income						113
Profit before tax						1,133
Income tax expense						(262)
Profit for the year						**871**

Year 2006	Exploration and production	Refining and marketing	Retail	Corporate and other	Elimination	Total
Sales to external customers	4,247	13,523	5,595	69	-	23,434
Inter-segment sales	2,547	4,613	74	621	(7,855)	-
Total revenue	**6,794**	**18,136**	**5,669**	**690**	**(7,855)**	**23,434**
Operating expenses, net of other operating income	(5,171)	(17,966)	(5,636)	(1,542)	7,855	(22,460)
Profit/(loss) from operations net of other income	**1,623**	**170**	**33**	**(852)**	**-**	**974**
Net finance income						131
Profit before tax						1,105
Income tax expense						(221)
Profit for the year						**884**

(all amounts in HRK millions)

36. SEGMENT ANALYSIS (continued)

BY BUSINESS (continued)

INA Matica

Year 2007	Exploration and production	Refining and marketing	Retail	Corporate and other	Elimination	Total
Sales to external customers	5,012	11,803	5,793	43	-	22,651
Inter-segment sales	1,912	4,673	15	2	(6,602)	-
Total revenue	**6,924**	**16,476**	**5,808**	**45**	**(6,602)**	**22,651**
Operating expenses, net of other operating income	(4,742)	(16,461)	(5,900)	(1,057)	6,602	(21,558)
Profit/(loss) from operations net of other income	**2,182**	**15**	**(92)**	**(1,012)**	**-**	**1,093**
Net finance income						107
Profit before tax						1,200
Income tax expense						(210)
Profit for the year						**990**

Year 2006	Exploration and production	Refining and marketing	Retail	Corporate and other	Elimination	Total
Sales to external customers	4,282	11,407	5,611	26	-	21,326
Inter-segment sales	2,271	4,557	14	-	(6,842)	-
Total revenue	**6,553**	**15,964**	**5,625**	**26**	**(6,842)**	**21,326**
Operating expenses, net of other operating income	(5,034)	(15,877)	(5,590)	(921)	6,842	(20,580)
Profit/(loss) from operations net of other income	**1,519**	**87**	**35**	**(895)**	**-**	**746**
Net finance income						98
Profit before tax						844
Income tax expense						(174)
Profit for the year						**670**

(all amounts in HRK millions)

36. SEGMENT ANALYSIS (continued)

a) BY BUSINESS (continued)

INA Group

2007 Assets and liabilities	**Exploration and production**	**Refining and marketing**	**Retail**	**Corporate and other**	**Elimination**	**Total**
Property, plant and equipment	8,964	4,184	999	744	-	14,891
Intangible assets	356	12	13	280	-	661
Investments in associates and joint ventures	57	67	-	-	-	124
Inventories	632	2,385	58	48	-	3,123
Trade receivables, net	1,139	1,691	316	449	(523)	3,072
Not allocated assets						3,045
Total assets						**24,916**
Trade payables	1,290	2,088	171	508	(525)	3,532
Not allocated liabilities						7,741
Total liabilities						**11,273**
Other segment information						
Capital expenditure:	**1,559**	**985**	**212**	**140**	**-**	**2,896**
Property, plant and equipment	1,364	978	211	69	-	2,622
Intangible assets	195	7	1	71	-	274
Depreciation and amortisation	860	238	95	155	-	1,348
From this: Impairment losses recognized in profit and loss	33	-	13	-	-	46

(all amounts in HRK millions)

36. SEGMENT ANALYSIS (continued)

a) BY BUSINESS (continued)

INA Group

2006 Assets and liabilities	**Exploration and production**	**Refining and marketing**	**Retail**	**Corporate and other**	**Elimination**	**Total**
Property, plant and equipment	8,219	3,459	891	743	-	13,312
Intangible assets	384	25	2	274	-	685
Investments in associates and joint ventures	57	-	-	-	-	57
Inventories	642	2,091	47	58	-	2,838
Trade receivables, net	988	4,057	306	437	(3,256)	2,532
Not allocated assets						2,764
Total assets						**22,188**
Trade payables	816	5,087	149	493	(3,645)	2,900
Not allocated liabilities						6,502
Total liabilities						**9,402**
Other segment information						
Capital expenditure:	**1,747**	**850**	**117**	**382**	**(24)**	**3,072**
Property, plant and equipment	1,544	830	117	212	(24)	2,679
Intangible assets	203	20	-	170	-	393
Depreciation and amortisation	611	193	82	78	-	964
From this: Impairment losses recognized in profit and loss	(16)	-	-	-	-	(16)

(all amounts in HRK millions)

36. SEGMENT ANALYSIS (continued)

a) BY BUSINESS (continued)

INA Matica

2007 Assets and liabilities	**Exploration and production**	**Refining and marketing**	**Retail**	**Corporate and other**	**Elimination**	**Total**
Property, plant and equipment	7,605	3,673	995	350	-	12,623
Intangible assets	359	8	13	275	-	655
Investment in subsidiaries	648	354	-	284	-	1,286
Investments in associates and joint ventures	57	132	-	-	-	189
Inventories	448	2,069	61	3	-	2,581
Trade receivables, net	895	1,595	313	(5)	(706)	2,092
						-
Not allocated assets						3,558
Total assets						**22,984**
Trade payables	948	3,494	149	380	(3,095)	1,876
Not allocated liabilities						8,517
Total liabilities						**10,393**
Other segment information						
Capital expenditure:	**1,115**	**869**	**212**	**66**	**-**	**2,262**
Property, plant and equipment	924	863	211	(3)	-	1,995
Intangible assets	191	6	1	69	-	267
Depreciation and amortisation	725	203	94	115	-	1,137
From this: Impairment losses recognized in profit and loss	33	-	13	-	-	46

(all amounts in HRK millions)

36. SEGMENT ANALYSIS (continued)

a) BY BUSINESS (continued)

INA Matica

2006 Assets and liabilities	**Exploration and production**	**Refining and marketing**	**Retail**	**Corporate and other**	**Elimination**	**Total**
Property, plant and equipment	7,181	2,996	887	401	-	11,465
Intangible assets	387	20	2	269	-	678
Investment in subsidiaries	373	321	-	284	-	978
Investments in associates and joint ventures	57	-	-	-	-	57
Inventories	490	1,829	48	-	-	2,367
Trade receivables, net	709	1,262	311	12	(572)	1,722
Not allocated assets						3,026
Total assets						**20,293**
Trade payables	647	3,482	140	207	(1,935)	2,541
Not allocated liabilities						6,183
Total liabilities						**8,724**
Other segment information						
Capital expenditure:	**1,533**	**773**	**116**	**299**	**-**	**2,721**
Property, plant and equipment	1,330	755	116	130	-	2,331
Intangible assets	203	18	-	169	-	390
Depreciation and amortisation	475	165	76	47	-	763
From this: Impairment losses recognized in profit and loss	(16)	-	-	-	-	(16)

(all amounts in HRK millions)

36. SEGMENT ANALYSIS (continued)

b) BY GEOGRAPHICAL

INA Group

Year 2007	**Republic of Croatia**	**Middle East and Africa**	**Rest of the world**	**Total**
Property, plant and equipment	12,022	2,361	508	14,891
Intangible assets	378	262	21	661
Investments in associates and joined ventures	57	-	67	124
Inventories	3,060	-	63	3,123
Trade receivables, net	2,288	179	605	3,072
Not allocated assets				3,045
Total assets				**24,916**
Other segment information				
Capital expenditure:	**2,321**	**548**	**27**	**2,896**
Property, plant and equipment	2,226	379	17	2,622
Intangible assets	95	169	10	274

INA Group

Year 2006	**Republic of Croatia**	**Middle East and Africa**	**Rest of the world**	**Total**
Property, plant and equipment	11,037	1,986	289	13,312
Intangible assets	414	263	8	685
Investments in associates and joined ventures	57	-	-	57
Inventories	2,790	-	48	2,838
Trade receivables, net	1,898	114	520	2,532
Not allocated assets				2,764
Total assets				**22,188**
Other segment information				
Capital expenditure:	**2,465**	**571**	**36**	**3,072**
Property, plant and equipment	2,159	496	24	2,679
Intangible assets	306	75	12	393

(all amounts in HRK millions)

36. SEGMENT ANALYSIS (continued)

b) BY GEOGRAPHICAL (continued)

INA Matica

Year 2007	**Republic of Croatia**	**Middle East and Africa**	**Rest of the world**	**Total**
Property, plant and equipment	10,633	1,888	102	12,623
Intangible assets	372	262	21	655
Investment in subsidiaries	1,175	-	111	1,286
Investments in associates and joined ventures	57	-	132	189
Inventories	2.581	-	-	2.581
Trade receivables, net	1,614	178	300	2,092
Not allocated assets				3,558
Total assets				**22,984**
Other segment information				
Capital expenditure:	**1,768**	**482**	**12**	**2,262**
Property, plant and equipment	1,679	313	3	1,995
Intangible assets	89	169	9	267

INA Matica

Year 2006	**Republic of Croatia**	**Middle East and Africa**	**Rest of the world**	**Total**
Property, plant and equipment	9,845	1,509	111	11,465
Intangible assets	403	263	12	678
Investment in subsidiaries	901	-	77	978
Investments in associates and joined ventures	57	-	-	57
Inventories	2,367	-	-	2,367
Trade receivables, net	1,374	114	234	1,722
Not allocated assets				3,026
Total assets				**20,293**
Other segment information				
Capital expenditure:	**2,215**	**470**	**36**	**2,721**
Property, plant and equipment	1,912	395	24	2,331
Intangible assets	303	75	12	390

37. RELATED PARTY TRANSACTIONS

The company has dominant positions in Croatia in oil and gas exploration and production, oil refining and the sale of gas and petroleum products. As a result of the Company's strategic position within the Croatian economy, a substantial portion of its business and the business of its subsidiaries is transacted with the Croatian Government, its departments and agencies, and the companies with the Republic of Croatia being their majority shareholder.

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on Group level consolidation. Details of transactions between INA Matica and the Group companies and other related parties are disclosed below.

(all amounts in HRK millions)

37. RELATED PARTY TRANSACTIONS (continued)

Trading transactions

During the year, INA Matica entered into the following trading transactions with the following related parties:

INA Matica

	Sales of goods		Purchase of goods	
Business partners	**2007**	**2006**	**2007**	**2006**
Foreign related companies				
Interina Ltd Guernsey	2,246	2,206	676	1,070
Holdina Sarajevo	592	529	15	-
Interina d.o.o. Mostar	214	258	14	-
Interina d.o.o. Ljubljana	19	69	1	-
Interina Ltd London	79	-	11,952	8,030
Domestic related companies				
Crosco Grupa	9	21	399	190
Osijek Petrol d.d.	815	1,229	22	-
Crobenz d.d. Zagreb	622	725	10	-
Proplin d.o.o. Zagreb	380	422	117	172
STSI d.o.o. Zagreb	10	23	1,002	324
Maziva Zagreb d.o.o. Zagreb	74	64	76	57
Companies available for sale				
JANAF d.d. Zagreb	-	-	55	36
Strategic partner				
MOL Plc	246	100	226	612
Companies controlled by the State				
Hrvatske željeznice	146	240	30	30
Hrvatska elektroprivreda	2,128	1,168	133	73
Hrvatske telekomunikacije	3	13	28	24
Croatia osiguranje	6	1	50	54
Hrvatske vode	-	-	20	-
Hrvatska pošta	1	15	3	3
Ministarstvo obrane Republike Hrvatske	74	105	-	-
Hrvatske šume	3	60	4	1
Jadrolinija	114	160	2	3
Narodne novine	-	1	-	8
Hrvatska radiotelevizija	-	3	-	1
Plovput	-	1	-	-
Croatia Airlines	169	166	-	-
Petrokemija Kutina	661	612	-	-
Plinacro	5	10	391	364
Željezara Sisak	-	-	1	1

(all amounts in HRK millions)

37. RELATED PARTY TRANSACTIONS (continued)

Trading transactions (continued)

During the year, INA Matica entered into the following outstanding balances with the following related parties:

INA Matica	**Amounts owed from related parties**		**Amounts owed to related parties**	
Business partners	**2007**	**2006**	**2007**	**2006**
Foreign related companies				
Interina Ltd Guernsey	159	101	9	187
Holdina Sarajevo	86	70	3	2
Interina d.o.o. Mostar	33	52	6	8
Interina d.o.o. Ljubljana	5	10	-	-
Interina Ltd London	-	-	2,564	1,944
Domestic related companies				
Crosco Grupa	4	4	103	105
Osijek Petrol d.d.	134	112	1	6
Crobenz d.d. Zagreb	162	99	2	2
Proplin d.o.o. Zagreb	75	83	8	16
STSI d.o.o. Zagreb	11	24	383	343
Maziva Zagreb d.o.o. Zagreb	18	24	26	17
Companies available for sale				
JANAF d.d. Zagreb	-	-	5	3
Strategic partner				
MOL Plc	15	6	3	176
Companies controlled by the State				
Hrvatske željeznice	56	65	2	5
Hrvatska elektroprivreda	479	118	4	-
Hrvatske telekomunikacije	3	2	6	2
Croatia osiguranje	-	4	2	9
Hrvatske vode	-	-	1	-
Hrvatska pošta	2	2	-	-
Ministarstvo obrane Republike Hrvatske	17	16	-	-
Hrvatske šume	5	5	-	-
Jadrolinija	39	39	-	-
Narodne novine	-	-	1	-
Hrvatska radiotelevizija	-	-	-	-
Plovput	-	-	-	-
Croatia Airlines	31	15	-	-
Petrokemija Kutina	93	58	-	-
Plinacro	1	14	38	18
Željezara Sisak	4	-	-	1

(all amounts in HRK millions)

37. RELATED PARTY TRANSACTIONS (continued)

Sales of goods to related parties were made at the Group's usual list prices, less various discounts dependent upon the relationships between the parties. Purchases were made at market price discounted to reflect the relationships between the parties.

For sale of oil products to the related parties, INA d.d. usually requires collaterals, depending on the risk of marketing the products, except from the customers that are budget beneficiaries or those fully owned by the state.

The liabilities of the related parties to INA Matica are presented net of allowance for bad and doubtful receivables.

Compensation of key management personnel

The remuneration of directors and other members of key management during the year were as follows:

	INA Matica 2007	INA Matica 2006
Short-term employee benefits	38	38
Termination bonuses	1	1
Total	**39**	**39**

Included above is the remuneration to the President of the Management Board, Management Board Members and executive directors of the business segments and functions, the division executives, advisor to the President of the Management Board and assistant directors.

Based upon signed representations in connection with the related party disclosure requirements, employees of INA d.d. (44 employees) declared that none of their close family members of the INA d.d. management team had any interest with INA d.d. that would enable them to benefit from any favourable influence over the entity, in either 2007 or 2006.

Other related party transactions

The Company is the principal customer of Crosco Naftni Servisi d.o.o. and its subsidiaries. The Crosco Group, with the Company as its sole owner (Note 13), presented consolidated 2007 revenue in the amount of HRK 1,625 million (2006: HRK 1,389 million), of which HRK 379 million (2006: HRK 472 million) were generated mainly from sale of technological services to INA Matica.

The Company is also the major customer of the service companies STSI d.o.o. and Maziva Zagreb d.o.o., both established in 2002, and of Sinaco d.o.o., which was established in 2003 (Note 13).

The Company remains the major customer of its associated company JANAF d.d., in which it has a holding of 16.00% (Note 17). In 2007, approximately HRK 52 million of the associated company's total revenue in the amount of HRK 360 million account for sales revenue in respect of INA Matica as user of the pipeline system of JANAF d.d. (2006: HRK 49 million out of HRK 342 million total revenue).

38. COMMITMENTS

The Company and the Group have a number of continuing operational and financial commitments in the normal course of their businesses including:

- investment in refining assets to comply with new standards for fuels
- exploratory drilling and well commitments abroad,
- exploration and development commitments arising under production sharing agreements,
- commitments to procure imported gas from Russia to supplement local gas production to meet the demand for gas in Croatia,
- guarantees, performance bonds and letters of credit with Croatian and foreign banks,
- completion of the construction of certain assets.

Details of guarantees relating to short term bank loans and overdrafts are provided in note 24.

Investment in refining assets

In 2005, a temporary investment unit for the modernisation of refinery operations was established based upon a Company management decision. The Company is committed to a programme of capital investment in its refineries in order to enable them to continue to produce fuels which comply with increasingly stringent environmental standards (in terms of the refinery product quality) on the European market. The modernisation of refineries should include the increasingly stricter environmental protection requirements applicable to the fuel production process.

The tasks of the investment unit and its teams include managing modernisation projects at the Sisak and Rijeka Refineries. The ultimate objective of the programme is to meet the European quality standards applicable to refinery products until specified effective dates. The construction of new plants and the modernisation of the existing ones will significantly expand the quantitative capacities of the refineries, as well as improve the product quality and significantly reduce the level of environmental pollution.

For the purposes of the implementation of the refinery modernisation project, 59 contracts were concluded with vendors as at 31 December 2007, worth HRK 2.66 billion.

Purchase of Energopetrol

Based on purchasing of Energopetrol The Consortium INA and MOL according to the above stated Agreement, shall invest KM 150 million in the following three-year period, from the day of transaction execution:

- 1st investment year – the amount of KM 20 mil (approx. EUR 10 million)
- 2nd investment year – the amount of KM 35 mil (approx. EUR 17.5 million)
- 3rd investment year – the amount of KM 95 mil (approx. EUR 47.5 million)

38. COMMITMENTS (continued)

Participation and Joint Operating Agreements

Participation and Joint Operating Agreement in the Contract Area Podravska Slatina – Zalata

On 14 September 2006 INA Matica and MOL concluded a Participation and Joint Operating Agreement in the Contract Area Podravska Slatina – Zalata. The parties will share equally 50 % participating interest in the Agreement.

According to the Agreement the exploration period shall last two years from the date of the execution of the Agreement. In the case when no commercial discovery is made during the exploration period the contract would be terminated.

In any case the total duration of this Agreement shall not exceed the term of twenty five years from the date on which the first deliveries of production from the contract area commence on a regular basis ("Date of Initial Commercial Production") with the possibility of extension of the development and production period for successive periods up to maximum five (5) years on the same conditions.

Based on the successful exploration findings in 2007 and the discovery of the gas field, drilling of another well is planned during 2008, the exploration well Dravica-1 in the territory of the Republic of Croatia. The costs of the commitments pertaining to the exploration well Dravica-1 amount to EUR 8 million. Since INA is the Operator, MOL will settle 50 % of the well expenditure upon completion of the works.

Participation and Joint Operating Agreement in the Contract Area Novi Gradac-Potony

On 1 September 2007 INA and MOL concluded Participation and Joint Operating Agreement in the Contract Area Novi Gradac-Potony. The parties will share equally 50 % participating interest in the Agreement.

According to the Agreement the exploration period shall last three years from the date of the execution of the Agreement. The agreed obligations include seismic mapping of an area of 189 sq. km. and the construction of the exploration wells.

The seismic mapping activities are scheduled for the end of 2007 and beginning of 2008. In 2008, the liabilities to MOL, GES and the so-called third party (field damages to individuals and legal entities) in respect of the seismic mapping works in the amount of EUR 1.15 are to be paid.

The construction of the first exploration well under the Project Novi Gradac-Potony has been scheduled in 2009, with the maximum commitment on the part of INA amounting to EUR 4.1 million. The construction of the second exploration well is scheduled in 2010, provided that the findings of the first well prove to be successful.

38. COMMITMENTS (continued)

Purchase obligations under "take or buy" contracts

On 1 June 2005 Ina Industrija Nafte d.d. concluded the contract with GAZEXPORT Ltd., Moscow for the supply of 1.2 bcm per year of natural gas under take or pay commitment until 2010. As of 31 December 2007 the Company's respective obligation is HRK 5,3 billion until the expiry of the contract (for the remaining four years, i.e. until 31 December 2010).

Additionally, the Company concluded transportation agreements to ensure deliveries of the gas to the destination point (FCA Croatian border). Validities of transportation contracts are until 2010 for Slovakia, 2015 for Slovenia and 2017 for Austria. The future commitments contracted approximate to HRK 2,5 billion until 2017.

Gas selling Contracts

For the periods ending 30 December 2007 the Group had following long term natural gas sale contracts:

In the period from 30 December 2007 to the expiry of the underlying contract:

1. Long-term contract between INA and HEP d.d. Zagreb
   a) Contracted supply quantity: 700,000,000 m3/year (in 2008)
   b) Annual sales: 980 million HRK
   c) Contract period: until 2015
   d) Estimated revenue for the remaining period: 7.8 billion HRK
2. Long-term contract between INA and PETROKEMIJA d.d. Kutina
   a) Contracted supply quantity: 621,000,000 m3/year
   b) Annual sales: 807.3 million HRK
   c) Contract period: until 2008
   d) Estimated revenue for the remaining period: 807.3 million HRK
3. Long-term contract between INA and PLIVA – Hrvatska d.o.o. Zagreb
   a) Contracted supply quantity: 9,990,000 m3/year
   b) Annual sales: 14 million HRK
   c) Contract period: until 2013
   d) Estimated revenue for the remaining period: 112 million HRK
4. Contracts between INA and tariff-based customers (distribution entities) – natural gas
   a) Contracted supply quantity: 1,342,324,500 m3 in 2008
   b) Annual sales: 1.4 billion HRK

38. COMMITMENTS (continued)

Gas selling contracts (continued)

c) Contract period: until 2008

d) Estimated revenue for the remaining period: 1.4 billion HRK

5. Contracts INA – other tariff-based customers – natural gas

a) Contracted supply quantity: 547,726,500 m3 in 2008

b) Annual sales: 675.6 million HRK

c) Contract period: 2008

d) Estimated revenue for the remaining period. 675.6 million HRK

6. Contracts INA – DIOKI (ethane)

a) Contracted supply quantity: 76,800 tons in 2008

b) Annual sales: 123.8 million HRK

c) Contract period: 2008

d) Estimated revenue for the remaining period. 123.8 million HRK

Water selling contracts

1. High quality process water

a) Contracted supply quantity: 2,265,700 m3 in 2008

b) Annual sales: 3.9 million HRK

c) Contract period: 2008

d) Estimated revenue for the remaining period. 3.9 million HRK

2. Geothermal water

a) Contracted supply quantity: 392,000 m3 in 2008

b) Annual sales: 1.4 million HRK

c) Contract period: 2008

d) Estimated revenue for the remaining period. 1.4 million HRK

39. CONTINGENT LIABILITIES

Environmental matters

The principal activities of the Company and the Group, comprising oil and gas exploration, production, transportation, refining and distribution, can have inherent effects on the environment in terms of emissions into land, water and air. The environmental effects of the activities are monitored by local management and environmental authorities. For the purpose of an efficient environmental protection, Croatia has passed an Environmental Protection Act (Official Gazette No. 110/07) as the principal regulation providing a general environmental protection framework, whereas specific obligations, deadlines and similar will be set out by subsidiary regulations to be passed subsequently.

Croatia has replied for membership of the European Union. As part of a succession process, strict environmental regulations similar to those at other EU countries will be gradually introduced in Croatia.

In 2006, as part of the second privatization stage, Golder Associates performed an independent appraisal in respect of environmental protection at INA's organisational units and provided an evaluation of future investments INA would have to incur to follow EU environmental regulation and removal of previous pollution. Thus, the costs of compliance with the EU environmental regulation have been estimated at around HRK 300 million, and those regarding the restoration of soil and water, as well as those pertaining to earlier pollution at around HRK 200 million. The Golder Report includes around HRK 35 million representing the Company's obligation under current laws. Based on the report, INA d.d. made a provision in its accounts in the amount of HRK 35 million, which was charged to operating expenses, to cover any potential costs that may arise in 2008 in connection with the removal of potential consequences of soil, water and air pollution.

Investments regarding environmental protection during 2007

Also, being an environmentally aware corporation, INA d.d. gives priority to the investments in the modernisation of its plants towards full compliance with environmental protection requirements. In this respect, the 2007 investments in the projects linked with environmental protection amounted to over HRK 332 million, of which HRK 296 million was in the Refinery and Marketing business segments, around HRK 24 million in the Retail business, and HRK 12 million in the Exploration business. These investments do not include the investments in the refinery modernisation, the top priority of which is to improve the product quality but which also possess a significant ecological dimension.

As part of a systematic long-term solution for the sulphur emissions into the air, the desulphurisation plant at the Sisak Refinery was completed and put in test operation in September 2007, and the sulphur recuperation plant project at the Rijeka Refinery has been activated.

Also, activities and funds to achieve compliance with the legal regulations in the next years have already been planned.

Compliance with the technical environmental protection

For the purpose of compliance with the technical environmental protection standards specified in the Decree on Environmental Protection Technical Standards for Emissions of Volatile Organic Compounds during the storage and distribution of petrol, INA has plans to execute a series of projects in the organisational units for storage and distribution of petrol in the following five years.

39. CONTINGENT LIABILITIES (continued)

Environmental matters (continued)

Compliance with the technical environmental protection (continued)

The required funds have estimated around HRK 650 million as follows: HRK 156 million for the Sisak Refinery; HRK 185 million for the Rijeka Refinery; HRK 140 for the Logistics Sector; and HRK 166 million for the Retail Network Management Sector.

Within the Network Development and Maintenance Sectors, works at 337 petrol stations have been planned to ensure that vapours emitted when tanks are being filled on the petrol stations are directed back to a movable tank over a vapour-tight return pipe and that petrol loading into the storage facilities on petrol stations cannot be performed unless all required devices are in use or operating properly and reliably.

Reduction of emissions

For the purposes of reduction of emissions from large incineration plants, as required by the Decree on the Threshold Limit Values of Stationary Source Emissions into the Air, INA plans to invest HRK 675 million over the next four years as follows: slightly above HRK 408 million into the Rijeka Refinery and around HRK 267 million into the Sisak Refinery.

Irrespective of the projects specified above, significant investments will be made in other projects with indirect environmental benefits. Those investments, taken as a whole, will exceed the amounts budgeted for the projects with direct environmental benefits.

Disposal of Siberian Energy Investments Limited and “White Nights”

The Group sold SEIL (and with it White Nights) in July 2002 to Personal and Business Solutions. As at the 2004 year-end, approximately US$ 20 million was due from the sale to Holdina Guernsey Limited (Holdina), a subsidiary of the Company, but was subject to dispute with Personal Business Solutions (for a contract concerning the potential obligation in respect of the lease of property used in White Night’s operations).

The US$ 20 million had been held in escrow pending resolution of the dispute. During 2005 it was agreed by both parties to the dispute that US$10 million of the amount in escrow would be released and paid to Holdina. This amount plus accrued interest of US$ 20 thousand was received on 8 August 2005.

The Group intend to continue legal proceedings in order to recover the remaining US$ 10 million; however at the date of release of these financial statements there were no firm dates set for the hearing. The Group will record in the amount of released cash and paid to the Group.

(all amounts in HRK millions)

40. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Gearing ratio

The Treasury of INA Matica and the INA Group reviews the capital structure on a semi-annual basis.
As part of this review, the Treasury considers the cost of capital and the risks associated with each class of capital.

The gearing ratio at the balance sheet date was as follows:

	INA Group		INA Matica	
	2007	**2006**	**2007**	**2006**
Debt:	**4,923**	**3,938**	**3,130**	**2,037**
Long term loans	3,130	1,425	2,988	1,372
Short term loans	1,664	1,935	97	159
Current portion of long-term borrowings	129	578	45	506
Cash and cash equivalents	(720)	(630)	(299)	(226)
Net debt	**4,203**	**3,308**	**2,831**	**1,811**
Equity	13,643	12,786	12,591	11,569
Net debt to equity ratio	**31%**	**26%**	**22%**	**16%**

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

Categories of financial instruments

	INA Group		INA Matica	
	2007	**2006**	**2007**	**2006**
Financial assets				
Loans and receivables (including cash and cash equivalents)	4,643	4,063	3,970	3,525
Available-for-sale financial assets	656	436	656	436
Financial liabilities				
Amortised cost	8,455	6,838	8,102	6,513
Financial guarantee contracts	596	380	596	380

40. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Financial risk management objectives

The Group is exposed to international markets and takes on significant borrowings denominated in foreign currencies. As a result, the Group is exposed to fluctuations market prices of crude oil market, natural gas and refinery products, as well as to the effects of fluctuation in exchange and interest rates. Because of credit sale of goods, the Group is also exposed to credit risk.

The Treasury function at INA Matica provides financial services for the company and coordinates access of the Group to domestic and international markets, monitors and manages the financial risks relating to the operations of INA Matica. The most significant risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk and liquidity risk.

The major risk exposures, together with the techniques used to manage those risks, are set out below. The Group used derivative instruments for managing those risks to a very limited extent. The Group does not use derivative financial instruments for speculative purposes.

Market risk

Commodity price risk management (price risk)

The volatility of crude oil and gas prices is the prevailing element in the business environment of the Group. The Group buys oil at prices mostly through short-term arrangements in US dollars at the spot market price. The Group also imports a significant portion of gas to cover its requirements at the cost price denominated in US dollars, which reprices on a quarterly basis, in accordance with the underlying long-term gas purchase agreements.

INA Matica generates most of its sales from refinery products and wholesale of gas. The formula for determining the refinery product prices, specified by the Oil Refinery Product Price Regulation effective since 2001, hedges the Group from the changes in the oil and refinery prices, and foreign exchange risk to a large extent, as it enables the refinery products to be repriced every two weeks, depending on the market (Platts) prices and the fluctuations in the exchange rate of Croatian kuna to US dollars. During 2007, the pricing formula could not have been applied to the full extent because of the activities of the major shareholder.

The Group does not use any forward agreements to manage its oil and gas price risk.

(all amounts in HRK millions)

40. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Foreign currency risk management

The Company undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise.

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

INA Group

	Liabilities		Assets	
	2007	**2006**	**2007**	**2006**
	million HRK	million HRK	million HRK	million HRK
Currency US$	5,569	4,083	803	748
Currency EURO	256	272	242	169
	5,825	**4,355**	**1,044**	**916**

INA Matica

	Liabilities		Assets	
	2007	**2006**	**2007**	**2006**
	million HRK	million HRK	million HRK	million HRK
Currency US$	5,524	4,072	992	591
Currency EURO	198	228	198	37
	5,722	**4,300**	**1,190**	**628**

Foreign currency sensitivity analysis

The Company is mainly exposed to the currencies of the countries whose currency is US dollar, which is the currency in which oil and gas purchases on the international market are denominated in general.

The following table details the Company's sensitivity to a 10% increase in Croatian kuna in 2007 (in 2006: 10 %). against the relevant foreign currencies The sensitivity rates used represent management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a change in foreign currency rates expressed as percentage. The sensitivity analysis includes monetary assets and liabilities in foreign currencies. A negative number below indicates a decrease in profit where Croatian kuna changes against the relevant currency by the percentage specified above. For the same change of Croatian kuna versus the relevant currency in the opposite direction, there would be an equal and opposite impact on the profit.

(all amounts in HRK millions)

40. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Foreign currency sensitivity analysis (continued)

INA Group

	Currency US$ Impact		Currency EUR Impact	
	2007	**2006**	**2007**	**2006**
	million HRK	million HRK	million HRK	million HRK
Profit / (loss)	(489)	(352)	8	(34)
	(489)	(352)	8	(34)

INA Matica

	Currency US$ Impact		Currency EUR Impact	
	2007	**2006**	**2007**	**2006**
	million HRK	million HRK	million HRK	million HRK
Profit / (loss)	(465)	(366)	9	(43)
	(465)	(366)	9	(43)

The exposure of the 10% fluctuation in the exchange rates for the currencies presented above is mostly attributable to the condition of the suppliers and borrowings denominated in US dollars (USD).

Interest rate risk management

The INA Group is exposed to interest rate risk as entities in the Group borrow funds at both fixed and floating interest rates, with most of the Group's borrowings bearing interest at variable rates.

Interest rate risk analysis

The sensitivity analysis below has been determined based on the exposure to interest rates at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the changes in interest expense of INA Matica would be as presented below. Because of the increase in the long-term debt at variable rates, the exposure to a potential change in the interest rates on profits has also increased.

(all amounts in HRK millions)

40. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Interest rate risk analysis (continued)

	INA Grupa		INA Matica	
	2007	**2006**	**2007**	**2006**
Short-term interest expense change	1	1	1	1
Long-term interest expense change	16	10	15	9
Total change:	**17**	**11**	**16**	**10**

If interest rates had been 50 basis points higher/lower, the profit of the INA Group and INA Matica would be increased/decreased by HRK 17 million (2006: increase/decrease by HRK 11 million) and HRK 16 million (2006: increase/decrease by HRK 10 million), respectively.

Other price risks

The Group is exposed to equity price risks arising from equity investments. Equity investments are held for strategic rather than trading purposes.

Equity price sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date.

If equity prices had been 10% higher:

- net profit for the year ended 31 December 2007 would have been unaffected as the equity investments are classified as available-for-sale; and
- other equity reserves of INA Matica would increase by HRK 54 million (2006: increase by HRK 42 million) as a result of the changes in fair value of available-for-sale shares.

If equity prices had been 10 % lower, there would be an equal and opposite impact on equity.

The Group's sensitivity to equity prices has not changed significantly from the prior year.

Credit risk management at INA d.d.

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. INA Matica has adopted a Credit Risk Management Procedure, which it applies in dealing with its customers, and obtains collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults.

Counterparties are classified into risk groupings by reference to their financial indicators and the trading records with INA Matica, and appropriate measures to provide protection against credit risk are taken for each of the groups.

40. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Credit risk management at INA d.d. (continued)

The information used to classify the counterparties into the risk groupings is derived from the official financial statements and reports of the customers, obtained from independent rating agencies and the own trading records of INA Matica.

The exposure of INA Matica and the credit ratings of its counterparties are continuously monitored and credit exposure is controlled by counterparty limits that are reviewed at least on an annual basis.

INA Group transacts with a large number of counterparties from various industries and of various size. The highest concentrations of credit risk are towards state institutions and state-owned counterparties. Given that the Republic of Croatia is a major shareholder of the Group itself, credit risks depends to a significant extent on the policy of the Croatian Government.

There is no significant credit risk exposure of INA Matica that would not be covered with collateral, other than those to the above mentioned institutions and entities controlled by the state. Hence, there is a realistic credit risk of up to 5 % with respect to receivables from the institutions and the counterparties controlled by the state.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Management Board, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of receivables and payables.

Liquidity and interest risk tables

The following tables detail the remaining contractual maturity for financial liabilities of INA Matica and of the Group at the period end. The tables have been drawn up based on the undiscounted cash flows based on the earliest date on which the payment can be required. The tables include both interest and principal cash flows.

(all amounts in HRK millions)

40. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Liquidity risk management (continued)

Liquidity and interest risk tables (continued)

INA Group

	Less than 1month	1 - 3 months	3 - 4 months	4 month to 1 year	1 - 5 years	5+ years	Total
2007							
Non-interest bearing	3,354	1,161	-	194	-	1,641	6,350
Interest bearing	-	161	-	1,632	3,130	-	4,923
	3,354	**1,322**	**-**	**1,826**	**3,130**	**1,641**	**11,273**
2006							
Non-interest bearing	3,274	617	-	162	-	1,411	5,464
Interest bearing	-	197	-	2,316	1,425	-	3,938
	3,274	**814**	**-**	**2,478**	**1,425**	**1,411**	**9,402**

INA Matica

	Less than 1month	1 - 3 months	3 - 4 months	4 month to 1 year	1 - 5 years	5+ years	Total
2007							
Non-interest bearing	2,860	784	-	97	-	1,539	5,280
Interest bearing	-	98	1,982	45	2,988	-	5,113
	2,860	**882**	**1,982**	**142**	**2,988**	**1,539**	**10,393**
2006							
Non-interest bearing	2,619	487	-	121	-	1,323	4,550
Interest bearing	-	159	2,137	506	1,372	-	4,174
	2,619	**646**	**2,137**	**627**	**1,372**	**1,323**	**8,724**

Non-interest bearing liabilities of INA Matica due in a period of less than one month consist mainly of trade accounts payable in the amount of HRK 2,305 million in 2007 (2006: HRK 2,002 million) and taxes and contributions payable in the amount of HRK 535 million (2006: HRK 478 million).
Included in non-interest bearing liabilities of INA Matica due in a period of over five years are, among others, long-term decommissioning provisions for oil and gas properties in the amount of HRK 1,069 million in 2007 (2006: HRK 942 million).

Interest bearing liabilities include short-term and long-term borrowings and amounts due to oil suppliers, both for the INA Group and INA Matica.

The same has been applied for the Group.

(all amounts in HRK millions)

40. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Liquidity risk management (continued)

As a rule, INA Matica imports crude oil and refinery products through its foreign operations Ineterina London and Interina Guernsey. In accordance with common international practice, oil purchases are effected by opening documentary letters of credit in favour of the supplier at first-class commercial banks and using trade financing.

Fair value of financial instruments

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

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices;
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

Under IAS 39 'Financial Instruments: Recognition and Measurement' derivative financial instruments are carried in the balance sheet at fair value, with the fair value changes being reported through profit or loss.

The Group has concluded certain long-term contracts that contain embedded derivatives as defined by IAS 39. An embedded derivative is a component of a non-derivative host contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. As required by IAS 39, such embedded derivative instruments should be separated from the host contract and accounted for as a derivative carried at fair value, with changes in fair value recognised in profit or loss. The fair value of foreign-exchange forward contracts has been determined on the basis of exchange rates effective at the balance sheet date. The value of the embedded instrument to replace the inflation index has been determined as the difference between the cumulative inflation index of the contracted inflation escalation index and the inflation rate in the country of contract execution. Any long-term effect of the embedded derivatives has been discounted at a discount rate similar to the interest rate on Government bonds.

The fair values of embedded derivatives included in the balance sheet under current assets, and the net movement in the year, are as follows:

	INA Group and INA Matica	
	2007	**2006**
Fair value at 1 January	328	289
Financial income/losess relating to the net change in fair value in the year (Note 6 and 7)	(5)	39
Fair value at 31 December	**323**	**328**

(all amounts in HRK millions)

40. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Fair values of financial instruments (continued)

	INA Group and INA Matica	
	2007	**2006**
Analysed as:		
Current portion	97	77
Non-current portion	226	251
	323	**328**

41. SUBSEQUENT EVENTS

Changes in legislation

Since January 1, 2008 a new regulation has been in force in the Republic of Croatia Petroleum Product Pricing Regulation, (OG 133 27/12/2007), under which the wholesale price of petroleum products include the changed component (depending on the type of fuel quantities sold), and as mentioned in continuation of this article. Until 31.12.2007, the fee for financing the Croatian Agency for Obligatory Petroleum and Petroleum Product Stock for all types of fuel equally accrued HRK 150 per ton of the fuel sold, while from 01.01.2008 the Regulation prescribes, as follows:

The fee established for financing the work of Croatian Agency for Obligatory Petroleum and Petroleum Product Stock in 2008, for the petroleum products sold on the domestic market from January 1, 2008 to December 31, 2008 shall amount to the following:

- HRK 150 per ton of the petroleum products sold, accrued and paid to the Agency pursuant to article 12, paragraph 1, point I of the Act on Petroleum and Petroleum Product Market (hereinafter: the Act);
- HRK 190 per ton of the petroleum products sold, accrued and paid to the Agency pursuant to article 12, paragraph 1, point II of the Act, except for the jet fuel;
- HRK 80 per ton of petroleum products sold, accrued and paid to the Agency pursuant to article 12, paragraph 1, point III of the Act, including the jet fuel.

Crosco B.V.

In January 2008, Crosco d.o.o. Zagreb established a new fully-owned operation in the Netherlands, Crosco B.V. The new company is registered for the provision of oil and gas drilling services and rental of the drilling equipment.

42. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Management Board and authorised for issue on 11 March 2008.

Signed on behalf of the Company on 11 March 2008 by:

Zalán Bács	Tomislav Dragičević
Vice President of the Management Board & Executive Director of Finance Function	President of the Management Board