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Annual Report 2007.

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Introduction

INA, d.d. company profile

Incorporation

INA-Industrija nafte d.d. Zagreb (INA, d.d.) is a public limited company owned by the Republic of Croatia (44.85%), Hungarian Oil and Gas Plc MOL (25% plus one share), private and institutional shareholders (21.11%) and the Croatian Homeland War Veterans' Fund (7%). As of December 1, 2006, INA's shares are listed on the Zagreb and London Stock Exchange.

INA, d.d. was founded on January 1st 1964 with the merger of Naftaplin (oil and gas exploration and production) with refineries in Rijeka and Sisak. By the end of the decade, INA, d.d. had expanded to include the Zagreb refinery, Trgovina (a domestic trade organisation), the OKI and DINA organic petrochemical factories and the Kutina fertiliser plant. In 1993 INA, d.d. became a public limited company (or ''d.d.'').

INA group

The Group comprises a number of wholly or partially owned companies and associate companies. The Group's headquarters are located in Zagreb, Avenija Većeslava Holjevca 10, Croatia. On December 31st 2007, the Group employed 15, 855 employees. The Group holds the leading position in Croatia in oil and gas exploration and production, oil refining and distribution of gas, oil and oil products.

The principal activites of INA, d.d. and its subsidiaries

- Exploration and production of oil and gas in Croatia and abroad
- Import of natural gas and the sale of imported and domestic natural gas to industrial consumers and gas distributors;
- Refining of crude oil and production of crude oil products in refineries located in Rijeka (Urinj) and Sisak where fuels are produced, and Rijeka (Mlaka) and Zagreb where lubricants are produced
- Retail of crude oil products and other merchandise through a chain of 407 retail petrol stations owned by INA, d.d., 18 owned by INA's subsidiaries in Croatia and 49 petrol stations in neighbouring countries
- Trading in crude oil and oil products
- Provision of drilling, workover and other services related to on-shore, off-shore oil and gas exploration and production - Crosco - Naftni servisi d.o.o.
- Provision of services related to oil line and gas line construction, processing plants and maintenance of processing plants - STSI d.o.o.
- Manufacturing and sale of lubricants - Zagreb Lubricants d.o.o.
- Production and sale of liquefied petroleum gas - Proplin d.o.o.
- Catering and Tourism - Hostin d.o.o.
- Car and boat rental - ITR d.o.o.
- Health protection and safety - Sinaco d.o.o.

INA, D.D. DIRECTORS AND MANAGEMENT

General Assembly

For each INA General Assembly meeting, the Government of the Republic of Croatia, INA and strategic partner MOL appoint their representative or assignee.

Supervisory board

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

Management board

Tomislav Dragičević	President of the Board
Zalán Bács	Vice-president of the Board and Executive Director of Finance Function
Mirko Zelić	Member of the Board and Executive Director of Oil and Gas Exploration and Production Division
Josip Petrović	Member of the Board and Executive Director of Refining and Marketing Division
Niko Paulinović	Member of the Board and Executive Director of Retail Services Division
Sándor Lendvai	Member of the Board and Director of Corporate Services Function
Tomislav Thür	Member of the Board and Director of Corporate Processes Function

Tomislav Dragičević, President of the Management Board

Dr. sc. Tomislav Dragičević (56), doctor of chemical sciences, was appointed general director of INA in March 2000. From June 2000, following the implementation of the new Articles of Association, he became the president of the Management Board. Prior to his appointment to this post Dr Dragičević was Director of Strategic Planning and R&D Sector, and before that Director of Refining. He joined INA in 1982 and before that he worked in the petrochemical plant in Kutina as the head of processing unit. He graduated from the faculty of Chemical Engineering, University of Zagreb. In 1984 he earned his master's degree and in 1993 his doctor's degree in chemical engineering. Since 1995 he has been a fellow of the Croatian Academy of Science and Art, Section IV - Petrochemistry.

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

Zalán Bács (40) was born in Hungary. In 1990 he graduated from the Chemical Engineering Faculty, Technical University of Budapest. Zalán Bács earned his master's degree at the Napier University in Scotland in 1992, and attended MBA - Budapest University of Economic Sciences in 1994. From 1992 till 1995 he was Project Manager at MOL. He also worked as a consultant for Arthur D. Little in London from 1994 till 1995. He became General Manager of MOL Romania in 1996, and from 1997 till 2000 he was Head of Resource Allocation at MOL. From 2000 till 2003 Mr Bács was Chief Controller of the MOL Group. For some time he was Chief Financial Officer of the leading chemical company TVK, a member of the MOL Group. Before being Vice President of the INA Management Board he was a member of the Board and director of Corporate Services function at INA.

Mirko Zelić, Member of the Board and Executive Director of Oil and Gas Exploration and Production

Mirko Zelić (72) Ph.D., P.E. joined the Management Board of INA from the Faculty of Mining, Geology and Petroleum Engineering of Zagreb University where he had been a professor. In 1964 he graduated from the Faculty (RGN Faculty) where he also earned his doctor's degree in 1982. His working life commenced in 1964 at INA-Naftaplin, where he has been continuously engaged in a number of managerial positions. He has been a full professor at the Faculty of Mining, Geology and Petroleum Engineering. He also lectures in postgraduate studies at the RGN and at the Faculty of Mechanical Engineering and Naval Architecture in Zagreb. He is the author of five books, over forty scientific and professional papers, an array of innovations and one patent in the petroleum field. He has been a full member of the Croatian Academy of Sciences and Arts (HAZU) since 2000.

Josip Petrović, Member of the Board and Executive Director of Refining and Marketing

Mr. Josip Petrović (56) graduated from the Faculty of Economics, University of Zagreb and received his master's degree in Marketing in 1992. He joined INA in 2004, first in the position of Executive Director of Retail Services and then in August 2005 he took the position of Executive Director of Refining and Marketing. Before that Mr Petrović was an adviser to the President of the Board of Agrokor Group (from April 2000). His first employment was at Industrogradnja. He was an Adviser to the General Director of the textile machinery and measuring devices factory for some time, and then he took the position of General Director of Unikonzum, a retail and wholesale chain. He joined Agrokor in 1995, and between 1998 and 2000 he was the Chairman of the Board of the Intercontinental Hotel in Zagreb.

Niko Paulinović, Member of the Board and Executive Director of Retail Division

Niko Paulinović (61)) is member of the INA Management Board and Executive Director of the Retail Division, in charge of the field of work concerned with provision of services to customers through the retail chain of petrol stations in Croatia and in neighbouring countries. He was born in 1947 in Drniš. He graduated from the Faculty of Law, University of Zagreb. Before his appointment to the Management Board he was Director of Retail Network Management Sector and also has years of experience in the retail activities regarding oil products. Within the 1985 - 2001 period, he was engaged in different tasks regarding the management of INA's retail network in leading positions and organisational units as they changed during the re-structurisation process. From 1995 till 2000 Niko Paulinović was Director of the Zagreb Business Centre within INA Trgovina, the biggest business centre as regards number of customers and quantity of sold products.

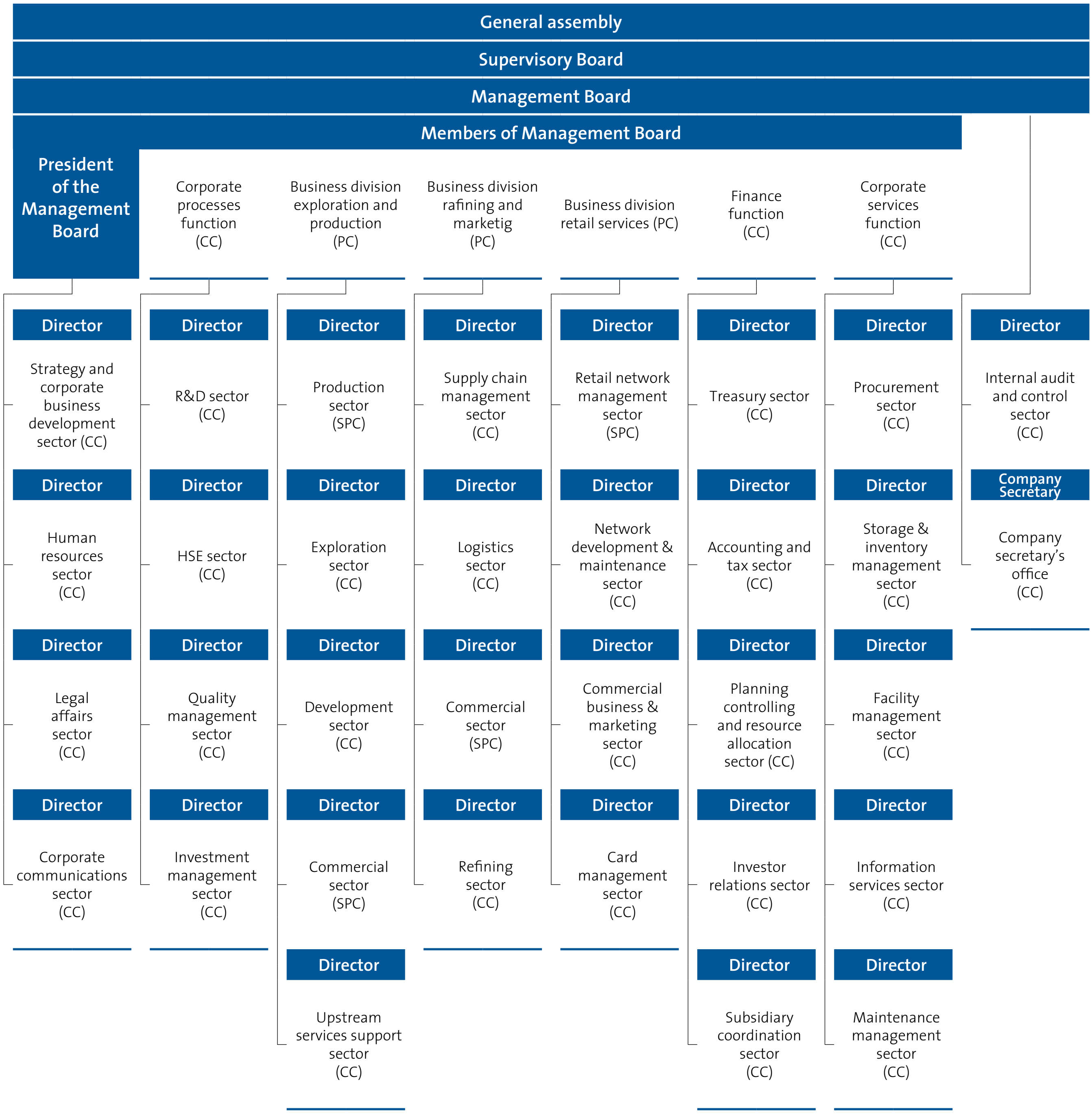
Tomislav Thür, Member of the Board and director of Corporate Processes Function

Mr.sc.Tomislav Thür, B.L.L. (41) graduated from the Faculty of Law, University of Zagreb in 1991 and in 1998 he earned his master's degree at the Harvard Law School. Before his appointment to the Board of INA and director of Corporate Processes Function, he was General Secretary of the Atlantic Group. He started his career in the lawyer's office in Zagreb. From May 1992 till August 2001 he worked at the Croatian Embassies in Bern and Washington and joined the liaison Croatian Office with the European Community Observers Mission. He was head of the National Coordinator Office for the Security Pact. He earned executive management training at the London Business School, Harvard Business School and INSEAD.

Sándor Lendvai, Member of the Board and Executive Director of Corporate Services Function

Sándor Lendvai (42) became a member of INAManagement Board after his employment at the Shell International Petroleum Co.Ltd oil products, where he was in charge of global secondary logistics and business excellence. He was born in Hungary and graduated from the Faculty of Economics, University of Budapest. His first two-year employment was at the Interag Rt. in Budapest. He became a member of the Executive Managerial Team and Committee for Shell Hungary Supply Chain. In 1998 he moved to Milan, where he became Business Planning Manager at Shell Europe Oil Products-south cluster. From 2000 till 2004 he was the Regional Manager for the Region of south-Eastern Europe and in 2005 he became the Global Secondary Logistics Manager.

Scheme of macro-organizational structure



Letter from the president of the Management Board

Dear Shareholders,

INA ended the financial year 2007 with sound results. The operating profit of INA Group increased by 5% over 2006 and amounted to HRK 1,020 million (USD 190 million). The improved performance on the operating profit level was achieved thanks to increased production of hydrocarbons by over 12% in 2007, to 65.3 million barrels of oil equivalent per day. An upward trend in gas production was recorded in the offshore Adriatic, and production of crude oil increased outside Croatia. EBITDA was HRK 2.8 billion, over 13% higher than in 2006. The net profit for the year was HRK 869 million, 1.6% down on 2006 as a result of the higher level of corporate taxes. The net profit in US dollars amounted to 162 million.

After the successful IPO in 2006, the privatization of INA continued in November 2007 by the sale of 6.29% of the total shares to INA's current and former employees under preferential terms. The interest in this was great and a large number of employees subscribed to shares.

Upstream continues with remarkable results

The increase in the average daily hydrocarbon production continued in 2007 reaching 12.1 % over 2006. The production of natural gas onshore and offshore reached 2 billion cubic metres. Croatia is among the rare European countries that meets 64% of its demand with indigenous production of natural gas. The remaining 1.1 billion was imported from Russia. However, the gap between the procurement price of imported gas and the capped prices in Croatia had a negative effect on INA's revenues in the gas sector. The negative effects were partly mitigated by the fact that in summer 2007 INA successfully completed negotiations with the two large eligible customers: the power producer HEP and the fertiliser plant Petrokemija Kutina, although prices for tariff customers remained unchanged.

INA's Exploration and Production Division continued with successful exploration operations in Syria. In April 2007 the new Mustadira gas field was discovered on the Hayan block. The Notice of Commercial Discovery was submitted to the Syrian ministry in August 2007. The well Mustadira-1 will be connected to the Palmyra - Arak pipeline.

In September 2007 the new oil and gas field Mazrur was discovered. The well Mazrur-1ST reached a depth of 3,938 m with significant hydrocarbon reserves found in the Amanus sand formation. The approval of the Notice of Commercial Discovery for the Mazrur field is in process.

Intensive seismic surveys have been carried out on the explorations blocks in Egypt, Angola and Namibia, and also on the offshore Adriatic contract areas: Izabela and Ivona blocks and Ivana, Ika and Annamaria fields.

By the end of 2007 E&P commenced a large development campaign which started with the drilling of the development well Ika-B3 in the North Adriatic contract area. It will continue by the drilling of another 17 wells and putting on stream the smaller gas fields Ana, Vesna, Irina, Annamaria and Izabela, including additional development wells on the Ika and Ida fields.

On the Croatian-Hungarian border MOL and INA jointly discovered a new gas field on the Zalata prospect. Following this successful exploration effort, the partners signed a contract on joint exploration on another bordering area - Novi Gradac - Potony.

All these exploration and development activities will add to INA's proved reserves. In 2007 INA's reserves replacement ratio was 141% for proved reserves and 73% for proved and probable reserves.

Higher output in INA's refineries

In 2007 INA's fuels refineries in Rijeka and Sisak produced 4.7 million tonnes of oil products, which is 9.1% more than in the previous year. The production of Euro quality gasoline and diesel increased by 38% over 2006. However, the product slate is still not satisfactory and full-scale improvement will be achieved only when our refineries have been upgraded.

During 2007 various projects within the scope of the modernization programme continued in both refineries. A sulphur recovery unit was installed in the Sisak refinery and put on stream in September. The new HDS FCC gasoline unit is under construction and is to be completed and commissioned in September 2008.

The contracts for the sulphur recovery unit, hydrocracking complex and hydrogen generation unit in the Rijeka refinery were signed and procedures are in progress to obtain the necessary construction permits. Also, the construction of the new Isomerisation unit started in 2007 and has been completed in early 2008. It will enable production of a higher volume of Euro quality gasoline.

Higher exports of INA's products

INA's total sales volumes increased by 2.5% (4,891 kt) over 2006. Domestic sales account for 60% of total sales, while 40% goes to export. Bosnia and Herzegovina remains INA's strongest export market and export to this country increased by 15% over the previous year. Key export products are Euro quality gasoline and diesel, LPG, virgin naphtha and heating oil. Sales volumes in the domestic market remained on the same level. The demand for the Euro quality products is on the rise and INA had to import certain volumes of gasoline, diesel and jet fuel. However, the import of these products declined in 2007 over the previous year by 37% due to more efficient utilization of INA's own refining capacity and ability of refineries to produce a larger share of Euro quality products.

During 2007 fuel prices in the Croatian market were capped. On the other hand crude oil prices on the international market were at a record high. As a result INA had a total negative effect of HRK 260 million which diminished its profits in 2007.

Further improvements in retail network

In 2007 two new, modern petrol stations were put into operation. The Vukova Gorica site on the highway route to the Adriatic coast is INA's largest service station with restaurants, shops and souvenir shop. In addition, three petrol stations were completely reconstructed and five sites were refurbished. The new and upgraded petrol stations have a modern INA visual identity and shops selling consumer goods and auto-bars.

By the end of 2007 INA operated 433 petrol stations in Croatia, while outside Croatia INA operates 41 petrol stations in Bosnia and Herzegovina and six in Slovenia. After acquisition of a 67% interest in Energopetrol, Sarajevo, with its network of 67 petrol stations, INA and MOL are jointly working on consolidation of the business and preparations for upgrading of the network.

INA continues to pursue a retail strategy with the objective of strengthening the INA brand through further improvements. The strategy involves site segmentation, increased number of premier sites and a specific approach to other segments of retail sites, as well as optimization of on-site and off-site costs.

Partnership with MOL

We would particularly like to emphasize the two important exploration and development projects where INA and MOL work together. A joint exploration operation in the area on the Croatian - Hungarian border resulted in the discovery of the Zalata gas field. In 2008 INA will continue exploration activities on the Croatian side of the prospect. Another joint exploration agreement has been signed by the partners for the Stari Gradac - Potony exploration area.

Our cooperation is developing successfully in a number of other activities.

Looking forward to continued strong performance

In its strategy INA reiterated its commitment to creating value for its stakeholders by increasing and upgrading its businesses and continuing to improve the quality of its products and services.

We have been successful in augmenting our hydrocarbon reserves and we intend to continue doing so through completion of the existing prospects and new concessions. The modernization of our two fuel refineries is progressing well. Some other units will be completed by the end of 2008. Producing higher value products that meet the EU specification will enable INA to meet demand for such products in the wholesale and retail markets in Croatia and in the region.

I would like to thank our employees, a large number of them also as shareholders in INA, for their contribution to the good results of the company. I believe that together we will achieve further growth and enhanced profitability.

Tomislav Dragičević

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Business report

Vision, Mission and Core Values

INA is a modern, socially responsible and transparent company in constant dialogue with its environment, focused on sustainable development and care for the health and safety of its employees and the community as a whole.

Vision

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

Mission

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

Core Values

In order to achieve its Mission and realise its Vision, INA has to adjust its behaviour to the expectations and goals of all concerned in INA's activities - primarily the owners, customers, suppliers and the community in which INA operates, while taking into account the need to protect the environment and maintain a balance in nature that surrounds us.

Hence, INA's core values are:

Benefits for the Owner

Achieving the profitability and value creation its shareholders and investors expect..

Partnership with Customers

Fulfilling its customers' needs and expectations, and obtaining their trust and long-term loyalty.

Suppliers

Keeping correct relationship with suppliers.

Respect for Local Community - Recognisable Image

Maintaining awareness for the INA brand through close cooperation with various communities and respecting their cultural, national and regional characteristics.

Benefits to Employees - Creativity and Uniqueness

Recognising employees' needs, interests and abilities through an incentive-based system for salaries and promotions, since the employees are an indispensable creative potential and form the overall support and foundation for realisation INA's corporate goals.

Health protection, safety and environmental protection

Environmental protection

Like every oil company in the world, with its activities which include - exploration and production, processing, storage and sale of oil, oil products and gas - INA can significantly influence the environment. Hence, pursuant to law regulations and best practice, these measures and indicators of environmental protection are monitored on all relevant locations, including: emissions into air and water, management of hazardous and non-hazardous industrial waste, accidents with environmental impact and similar.

With a goal of continuosly lowering the adverse effect on the environment and aiming at harmonisation with regulatory frame of the European Union, business activity at Ina is continuously upgraded according to principles of sustainable development and adjustment to EU regulations which regulate the environmental protection domain.

In 2007, a significant portion of activities was dedicated to harmonisation of business with the European regulatory standards from the environmental protection field.

Within the process of harmonising national legislation in environmental protection with European union standards, Decree on Technical Standards for Protecting the Environment from emissions of volatile organic compounds that are the result of storage and petrol distribution (OG 135/06) was adopted in 2006, through which Directives on control of emissions of volatile organic compounds (94/63/EZ) are included in the Croatian regulatory system. Moreover, 2007 was the year when the Decree on Border Values for Air Emissions from Stationary Sources (OG 21/07) was adopted. This Decree transfers provisions of Directive 2001/80EZ on limitations of air emissions from large combustion plants.

Aiming at implementation of the said by-laws, in 2007 INA prepared detailed perennial plan documents with defined project activities and pertaining financial resources. Hence, Sisak and Rijeka Oil Refineries, Logistics Sector and Retail Network Management Sector have adopted plans for projects and investments over the following years which will ensure timely implementation of activities necessary for harmonisation of the business activity with European standards.

Sisak Oil Refinery made great efforts in 2007 to improve and solve technological problems, which resulted in significant improvements in air quality in the area recorded on Sisak 1 immisions measuring station which is included in the state network for air quality monitoring.

Reduction of sulphur dioxide and hydrogen sulphide emissions was mostly contributed by the start-up of the desulphurisation plant Sulphur Recovery Unit as the first in a row of plants envisaged by the Capital project of Sisak and Rijeka Oil Refineries Modernisation.

The Refineries Modernisation Project continues with construction of HDS FCC of petrol (FCC hydrodesulphurisation) which will provide for production of Euro 5 quality petrol, therewith adjusting the quality of fuel with the highest standards, and which will contribute to the reduction of harmful emissions into the environment.

Apart from the projects within the modernisation programme - projects that will ensure long-term processing and production in line with EU standards, the Sisak Oil Refinery has launched many projects within the regular business activity and maintenance, which will contribute to raising the ecological standards, among which we single out the following: construction of the plant for processing rainfall waste waters on API KP-6 separator, reconstruction of the compressor sealing system , lightering of the blow down system on coking plant, construction of the Sisak-2 measuring station in Galdovo and automatisation of tank truck loading stations on Dorada 2

Projects on revitalisation of the storage space are also under way, where repair of R-300 and R-411 tanks for oil products is under way, with the purpose of reducing the evaporation losses, the project on installation of the new steam generator, as well as the complete Modernisation of IT system for monitoring emissions/immissions from the system of the refineries.

At the Rijeka Oil Refinery (Urinj location) the Study on Environmental Impact for the first phase of Rijeka Oil Refinery modernisation was accepted, which includes the construction of the Hydro cracking plant (MHC/HDS), Hydrogen Production Plant and Desulphurisation Plant (Claus). Obtaining the construction permits for the stipulated plants is under way.

Within the regular business activity focused on raising ecological standards of production, in 2007 all sources of noise at the Power Plant were repaired, since they were recognised as sources whose emissions endanger housing settlements in the area. Moreover, noise bafflers were installed on FCC complex.

At the refinery, equipment for emission monitoring on stacks, in line with legal requirements, was put into func-

tion. Within the programme of continuing rehabilitation of the subsurface, new equipment for exploitation was procured which provided for significant hydrocarbons recovery enhancement from 34 wells within the Refinery.

Implementation of the programme for reduction of benzene emissions/immissions and reduction of pollution of air with hydrogen sulphide from Rijeka Oil Refinery - Urinj location is under way.

At the Rijeka Oil Refinery (Mlaka location) all plants are adjusted to heating on gas and as of November 2007, all process furnaces and boilers use solely natural gas as energy source.

At the Oil and Gas Exploration and Production Division, the number of pipeline ruptures has been continuously decreasing as the result of major investments in replacement and repair of pipelines.

Unforeseen events with environmental impact

During 2007, 16 accidents with environmental impact were recorded at Ina, which is one less than the previous year. Most common causes were attempts of theft of liquefied hydrocarbons from pipelines, installation of improvised devices and pipeline/oil line leakage, but also breakdowns, that is, damage of processing equipment and spilling of the product.

Health protection and occupational safety

Health protection and occupational safety are one of the priorities of our company.

With systematic care for the health of our employees and with constant improvements of working conditions, we maintain a safe and healthy work environment. Activities we carry out in order to maintain safe working conditions and health of employees are connected to the realisation of legal obligations from the field of occupational safety and fire protection.

Special attention is given to constant education, the training of employees for work in a safe manner, the training of salespeople on petrol stations in the field of fire protection and occupational safety, preparation of danger evaluation for work positions, conducting fire protection drills and high quality communication as the basis for implementing healthcare and occupational safety.

Healthcare, as one of the priorities, is practised through regular medical examinations, constant medical check-ups of employees working in specific conditions, and by medical treatment and rehabilitation of employees at the specialised hospital for medical rehabilitation, Naftalan.

In the January 1st - December 31st 2007 period, 122 on-the-job injuries occurred, representing a 14% decrease in comparison with 2006, but there were no injuries with lethal consequences, nor professional illnesses. The number of injuries at the Rijeka Oil Refinery, Sisak Oil Refinery, Oio and Gas Exploration and Production, Business Function and the Management also decreased.

In April 2007 INA traditionally celebrated the World Day of Healthcare and Occupational Safety with an array of expert lectures. Moreover, May - the Month of Fire Protection was celebrated. On the occasion of the 13th fire protection month, several practical drills, evacuation and rescue drills took place. Due to the nature of its business activity (basic and pertaining), INA pays special attention to this issue through, among other things, implementation of the Annual Fire Protection Activity Plan.

Healthcare and Occupational Safety costs in 2007	
Occupational safety	HRK 2.559.000
Fire protection	HRK 74.580.000
Intellectual services of Occupational safety	HRK 2.900.000
Total	HRK 80.039.000

Quality management

Since the 1990s we have been continuously developing the quality management system and we meet the requirements of ISO 9001 standards, as is attested by our holding numerous certificates by accredited independent bodies for core processes of the company.

At the beginning of 2000, the Company Management decided to change the management philosophy. A unified business management system was developed, which is basically an integrated business management system defined as a system based on the rules of the Company, laws, rules of profession and requirements of ISO 9001, ISO 14001 and OHSAS 18001 standards and other standards in line with business decisions.

Since 2005, we have been re-confirming the unified business management system on the corporative level by the certificate we have been continuously maintaining. In 2007, the business policy of Ina Management determined the development of the IT safety management system, which is being developed and integrated into the existing management system. With the integration of the business management system we have upgraded and achieved improvements in the transparent management of processes, measuring and illustrating indicators of business results, measuring customer satisfaction and many other aspects.

The commitment of INA, d.d. to continuously upgrading its business processes and the quality of its business activity was confirmed by the introduction of the SAP system in 2006, which resulted in harmonisation of documents with redesigned processes. Ending 2007, the INA, d.d. Process Model project was re-launched after being at a standstill due to changes to its processes resulting from introduction of SAP. The goal of the project is to carry out the revision of INA, dd. Process models pursuant to the standard of process modelling at Ina.

The high index of customer satisfaction and loyalty to our products and services has confirmed that the quality management system is adequate and efficient and that it achieves the goals set.

Standardisation and metrology

For many years now INA, d.d. has been developing and upgrading internal standardisation on the corporative level, aiming at the determination of unified corporative standards. INA standards define the specification of products and raw material quality, they standardise elements of the company's visual identity, rules and standards in the area of business communication and standards of identification characteristics.

Standardisation Policy and Metrology Policy determine the frame and guidelines for preparation of INA standards and incorporation of quality demands of European and international standards into INA standards and metrology programmes on principles of sustainable development. We have continuously participated in the drafting and passing of regulations and standards in state institutions of the Republic of Croatia for fields of interest for Ina d.d., with the goal of protecting and promoting oil and gas industry interests on the domestic and other markets where we conduct business.

During 2007 we have harmonised Safety-Technical Sheets of INA, d.d. products with the requirements of the new Croatian regulations and EU directive.

Intellectual property management

Today at INA, d.d. we manage intellectual property so that we maintain and upgrade the entire process which has recognised authorisations, responsibilities and all activities from the creation of an idea through realisation of the product, marketing and sale, to protection of intellectual property. Aiming at protection of the created identity of INA, d.d., we ensure protection and maintenance of patents, commercial signs-seals, industrial design, visual identity of petrol stations and all other sale and service points in the Republic of Croatia and abroad, on markets where we intend to be or are already present, according to the Intellectual property Management Strategy.

INA, d.d. intellectual property is a result of years of tradition of encouraging the inventive work and creativity of employees. The goal of the intellectual property management process is to promote the need and importance of knowledge on the company and personal level. We are giving our best to make this knowledge available to all employees in the company, which is provided for by publishing the Company knowledge Database.

Since our future progress depends on innovativeness, we are creating an environment where innovations are supported and rewarded. Innovators from INA, d.d. took part in INOVA 2007 with 13 presented works and won three gold medals, three silver and five bronze medals for individual and group innovations. On the occasion of the celebration of 50 years of work of the Croatian Innovations Federation, Ina was awarded a prize for exceptional results in organising, support and application of achievements of Croatian innovators.

The guidelines we follow in the management of corporative knowledge are an open and communicative corporation culture, a commitment to basic activities, encouragement of creativity and transforming the knowledge of employees into usable form for the company. We strive to use basic resources of business activity, information and knowledge of employees to the best of our abilities, and to manage non-material values within the company as efficiently as possible, with the goal of achieving competitiveness.

Since intellectual property protection is successful proportionally to the success of supervision, that is, the condition for successful protection is the successful supervision of our own identity/technology on markets, we conduct continuous supervision of prevention of possible violation of rights of protected INA, d.d. intellectual property.

We have perceived the importance of comprehensive and central management of intellectual property of INA Group members by Ina, d.d. with the introduction of the centralised management of intellectual property, we are creating the basis of further development of the system of intellectual property management system which will lead INA, d.d. and INA Group members up to the level required by business in the modern market. It will also provide for implementation of a consistent and effective protection of intellectual ownership rights on the INA Group level, as well as taking appropriate measures in cases where such rights are violated.

Corporate social responsibility

Our success does not depend solely on financial performance but also on the fulfilment of all stakeholders' expectations in the field of social responsibility and environmental protection. In order to earn their trust we conduct our business activities ethically on a daily basis.

For more than 40 years INA has been supplying fuels and other oil products to the consumers and legal entities of Croatia and neighbouring countries. Our production facilities, terminals and retail sites are located in every corner of the country and thus INA is involved in the life of local communities. In many ways INA has contributed to the development of local communities by providing support in financing road construction, water supply and other infrastructural facilities, particularly in the areas where oil and gas exploration and production has been carried out. In the 1980s INA participated in the funding of various construction projects including schools, hospitals, holiday homes for its employees and other activities. This concept was abandoned as INA commenced its restructuring and focusing on its core activities. In the recent years INA has been announcing public invitations for project sponsorships and donations.

We have good and stable relations with our suppliers of crude oil, natural gas equipment and other materials, but precedence is given to Croatian companies, especially members of INA Group. Being one of the largest employers in Croatia, our goal is to recruit competent and skilful employees and to offer them an opportunity for further career development. Workers' rights and obligations are regulated on the basis of a Collective Agreement, labour regulations and company bylaws. The three trade unions active in INA represent the workers in negotiating Collective Agreement terms with the employer. Those are SING, INAŠ and EKN.

The confidence of our stakeholders is gained through the understanding of social, environmental and ethical issues and the fulfilment of set requirements which is essential for meeting the objectives we impose on ourselves.

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Business Segments

Exploration and production

Exploration operations

During 2007 INA's exploration activities were marked by massive 2D/3D seismic surveys on a large number of exploration interests. 2D surveys are in progress on the Zaris block in Namibia. In Egypt, acquisition of 2D/3D seismic data was completed on the East Kalabsha exploration block, while surveys continue on the East Yidma block. In the offshore exploration area in Angola, 3D seismic survey was completed on 3/05A block on 2,290 sq km. In Croatia, the joint operating company EDINA (Edison, Italy and INA) acquired 1,866 km of 2D seismic in a high density grid (pseudo 3D) on the Ivona block. After the signing of the contract with MOL for joint exploration of the area Novi Gradac - Potony, acquisition of 3D seismic data on 189 sq km started in October 2007 and should be completed in early 2008. Thus, a total of 5,045 sq km of 3D seismic and 2,366 km of 2D seismic surveys were completed on INA's exploration interests during 2007 and early 2008.

In addition to intensive seismic survey activities undertaken by INA's Exploration, the year 2007 was also marked by commercial discoveries of hydrocarbons in Syria and in the Pannonian basin, where INA and MOL announced discovery on the contract area Zalata - Podravska Slatina. On the East Yidma concession in Egypt, exploration was crowned with the discovery of oil on the Sidi Rahman-1 well, which was tested and put on stream during October 2007.

Exploration abroad

Syria

Hayan Block Operator: INA 100%

The third and final exploration phase on the Hayan block, the most successful international concession in INA's history, expired on 12 September 2007. During the year INA made two additional discoveries of commercial hydrocarbon reserves so that on the Hayan block there are six discoveries. The two new fields are: gas condensate Mustadira field and oil and gas Mazrur field.

Mustadira-1

Drilling of the deep exploration well Mustadira-1 was completed in April 2007, reaching a depth of 2396m. During drilling, significant hydrocarbon shows were detected in the Markada sand formations. DST operations confirmed gas in four sand layers: A, B, C and D. The well was tested and equipped so that commercial discovery could be announced. Production tests were carried out on the D2 and C Markada formation reservoirs.

Formation/interval (m)	Yield (m^3/day)		
	Gas	Condensate	water
Markada / C sloj	639,000	36	-
Markada / D2 sloj	8,168	-	2,9

The notice on commercial discovery for the Mustadira field was approved by the relevant Syrian Ministry on 15 August 2007. Connection of the Mustadira well to the Palmyra - Arak gas pipeline and commencement of its production is scheduled for the beginning of 2008.

Mazrur-1ST

Construction of the Mazrur-1 ST exploration well was completed by the end of September 2007. During drilling, significant hydrocarbon shows were detected in D2_2 Kurrachine Dolomite formation. DST operations confirmed flow of 470 m^3/d of oil and 116,000 m^3/d of gas. Drilling stopped at 3938m depth at the Amanus Sand formation.

Production testing commenced on 26 October and identified commercial discovery of oil and gas in the D2_2 reservoir Kurrachine Dolomite formation. Maximum wellhead flow through 56/64" choke was Qoil =377.7 m^3/day; Qgas = 190,510 m^3/day. Upon completion of testing a Notice of Commercial Discovery (NOCD) for the Mazrur field will be submitted to the Syrian Ministry.

Block Aphamia **Operator: INA 100%**

According to the licence agreement for the Aphamia block, the exploration phase ends in June 2008. After identification of significant shows of hydrocarbons during testing of the existing well Mudawara-1, in 2007 INA planned to drill another exploration well, Mudawara-2, in order to further explore this prospect, however due to limited budget the drilling of the Mudawara-2 well was postponed for 2008.

Egypt

Exploration activities in Egypt were carried out on the three exploration blocks: East Yidma, East Kalabsha and Ras El Ush.

East Yidma Block - Western Desert

Operator: INA 50% share, Partner: RWE-Dea 50% share

The works on this block are in the second exploration phase, with a duration of 2 years and expiring in September 2008. During the first exploration phase two exploration wells were drilled: Drazia-1 (temporarily suspended) and Sidi Rahman (oil production). The Notice of Commercial Discovery for the Sidi Rahman well and the Development Plan were approved by the Egyptian Oil Ministry in January 2007. In September the well was put into production. During 2007 exploration activities on this block were focused on appraisal of the oil discovery and evaluation of potentials of the entire East Yidma prospect, as well as selection of locations for new exploration and development wells. For this purpose acquisition of 3D seismic data on 1566 sq km commenced in August 2007, however it also involved demining of the area (mines left behind from World War II). The seismic survey is to be completed at the beginning of 2008.

Ras El Ush Block - Suez Bay

Operator IEOC, Italy: 75% share, Partner INA: 25% share

The second exploration phase, with a duration of 2 years, included the contract obligation of drilling one exploration well. The Gesr-1 well was completed on 20 August 2007. The well reached a depth of 2103m in the shallow sea of the Suez Bay. The well did not confirm hydrocarbon reserves and was abandoned as dry.

Due to the fact that the existing exploration activities, which included construction of two exploration wells, did not result in discovery of hydrocarbons, in December 2007 INA made a decision to abandon this block.

East Kalabsha Block **Operator: IEOC 50%**

Partners: INA 25%, RWE-Dea 25%

The first exploration phase began in May 2005 with a duration of 3 years. Exploration activities carried out until now have been focused on seismic surveys: 3D data were acquired on 516 sq km on East Kalabsha A' area and 2D/3D data were acquired on 395 sq km on the South Maleiha area. Interpretation of the seismic data is in progress, after which will follow selection of the prospect for exploratory well drilling planned to take place in 2008.

Namibia

Zaris Block **Operator: INA 100%**

The agreement on exploration of the Zaris block was signed in 2005. INA's obligations under the agreement include 2D seismic surveys on 500 km. The seismic survey began in December 2007 after the signing of the contract with Geofizika. Upon interpretation of the obtained data, decisions will be made concerning further exploration activities.

Angola

Block 3/05A **Operator: Sonangol 25%, Partner: INA 4%**

The exploration agreement for this offshore block in Angola was signed in 2005. Minimum obligations under the first exploration phase include drilling of one exploration well. Following the decisions by partners and INA, the extent of the works intensified in the second half of 2007 and 3D seismic survey was carried out on 2290 sq km. PGS was awarded the contract for seismic data processing and interpretation.

Exploration in Croatia

Pannonian basin - cooperation INA - MOL

INA and MOL have undertaken a joint project in the frontier area of Croatia and Hungary focused on evaluation of the Podravska Slatina - Zalata prospect. The exploration well Zalata-1 was completed by the end of 2006 and it detected significant hydrocarbon showings. Production tests were carried out in June 2007 and confirmed the discovery of a new gas field. Testing at intervals 3149-3155m, 3167-3172m and 3149-3155m indicated a maximum gas flow of 337,000 m^3/day on 32/64" choke. After that the partners agreed on appraisal well location on the Croatian side of the prospect. The well project was prepared by INA, which will be the operator for all activities on the Croatian side.

Successful cooperation in exploration was confirmed by the signing of a new Agreement between INA and MOL for the contract area Novi Gradac - Potony. The Participation & Joint Operating Agreement was signed on 1 September 2007. The first exploration phase with a duration of two years includes acquisition of 3D seismic. Depending on interpretation results and geological study findings, the selection of prospects will follow and decision on the second exploration phase. 3D seismic surveys on 189 sq km began in October 2007. The surveys are carried out by the Hungarian company Geophysical Services Ltd.

North Adriatic

Exploration and development operations in the North Adriatic have been carried out as joint ventures with foreign partners. The North Adriatic licence area has been explored and developed with ENI, Italy, through the j.v. operating company INAGIP. The North Adriatic area includes the Ivana, Ika, Ida and Annamaria gas fields. The Aiza-Laura (which includes part of the North Adriatic and Central Adriatic licence areas) includes the Marica and Katarina natural gas fields. The largest Ivana field was put into production in 1999. The Ika and Ida fields have been in production since early 2006 and are connected to the Ivana field. The Annamaria field was also discovered in 2006 and it is to be developed within the next two years together with the smaller gas fields Ana, Vesna and Irina.

The exploration activities on the North Adriatic licence area continue as new prospects are delineated and prepared for exploratory drilling.

North Adriatic licence area

The interpretation of 3D seismic surveys acquired on the Annamaria field indicated the existence of thin layer gas beds.

The Ika C SW prospect has been identified during 2006 seismic revision of the block, after positive re-evaluation of thin layers trapping potentials in the Annamaria field. The IKA C SW-1 exploration well is planned to be drilled during 2008 along with the Božica-1 well on another Ivana field prospect.

The exploration phase on the Aiza Laura block has been completed in January 2007.

Izabela Block

This block has been explored by INA and Edison, Italy, after the signing of a PSA agreement in 2002. A joint operating company EdINA was established and it has taken on the operation of the Izabela block and later of the Ivona block.

After discovery of the gas field Izabela by drilling the exploratory wells Izabela-1 and Izabela-2, 3D seismic survey was carried out on the northern part of the Izabela block, where Irena-1 and Irena-2 wells were drilled. Unfortunately these two wells did not confirm gas reserves in the target Carolla formation, but significant gas traps were detected in the shallow Ravenna formation layers. The Irena -1 well has been abandoned until an appropriate development solution is found. A redefining of the prospect is in course.

Ivona Block

The Ivona block contract was signed between INA and Edison in December 2005. The first exploration phase of three years includes seismic data collection. It is fully financed by Edison. The acquisition of 2D seismic in a high density grid was performed on 1,866 km in 2007. Two prospects have been identified but the final decision on further exploration activities will be made by the partners after analyses of seismic data interpretation.

In 2007 INA's exploration efforts were successful and resulted in new commercial reserves on the Mustadira prospect on the Hayan block in Syria and on the Drava block in the Pannonian basin. The newly discovered reserves are appraised at 30,711,395 bbl/oe. Total investments in all INA's exploration projects were USD 35.53 million, which makes the finding cost of 1.16 $/bbl.

Investments in exploration and development in 2007.

Description	Total in 2007		In Croatia		Abroad	
	HRK mil.	USD mil.	HRK mil.	USD mil.	HRK mil.	USD mil.
Exploration operations	190,54	35,53	22,66	4,22	167,88	31,30
Development operations	614,39	114,55	359,23	66,98	255,16	47,57
TOTAL INVESTMENTS	**804,93**	**150,08**	**381,89**	**71,20**	**423,04**	**78,87**

Investments in exploration and development USD / BOE

Investments USD/boe	2006	2007	Index (2007/2006)
Exploration	3,08	1,16	38
Development	7,13	4,69	66
Total	**10,21**	**5,85**	**58**

Exchange rate US$ = HRK 5,3635

Development operations

Croatia

Adriatic

The third phase of development activities on the North Adriatic licence area continues: a large-scale development campaign commenced by the end of 2007 with drilling of the development well Ika-B3. During the following two years another 17 development wells will be drilled and the gas fields Ana, Vesna, Irina, Annamaria and Izabela are to be put into production. Additional development wells will be drilled on the Ika and Ida gas fields already in production.

Pannonian basin

Development activities in the Pannonian basin included drilling of three development wells: the well Kal-21 on the Kalinovac gas field, the well Kz-41 on the Kozarice oil field and Vuč-5 on the Vučkovec gas field (within the scope of Međimurje project).

Activities aimed at revitalization of the existing oil and gas fields continue in the Pannonian basin. Detailed analyses of production potentials and carefully planned mining operations on the existing production wells during 2007 resulted in securing an additional output of 178 m^3/day of oil and 590,000 m^3/day of gas, with a positive impact on proved hydrocarbon reserves.

Concessions abroad

Angola

During 2007 oil was being produced on Block 3, which includes three contract production areas: block 3/05, block 3/85 and block 3/91.

As these are offshore blocks, the volume of crude oil representing INA's share (4% on block 3/05 and 5% on blocks 3/85 and 3/91) was accumulated and shipped once a year.

During the year only minor technical interventions have been carried out on Block 3, including light well intervention, perforating, production loggings, squeeze cementation, installation or replacement of gas-lift equipment, acid treatment and other well operations, as well as preparation of geological and mathematical models or their revisions.

Block 3/05

This contract area covers production from the 6 offshore oil fields. A planned general overhaul started in 2007 and is still in progress. Major overhaul works include repair of existing undersea pipelines, laying of new pipeline sections and construction of a new buoy for tanker loading.

Block 3/85

This contract area covers production from the 2 offshore oil fields. Only minor well interventions were carried out including repair or replacement of undersea and surface gathering systems.

Block 3/91

This contract area covers production from 1 offshore oil field. The planned overahaul on the Oombo-102 well has been postponed for 2008.

Egypt

INA has four producing interests in Egypt. During 2007 a total of 21 development wells were put into production: one well on the East Yidma block, five wells on the West Abu Garadig block, six wells on the North Bahariya block and nine wells on the Ras Qattara block.On the East Yidma - Western Desert concession where INA is the operator with a 50% share, the Sidi Rahman-1 well was put into production by the end of September 2007 and a new oil field was discovered.

On the West Abu Gharadig concession, the partners planned to drill three new development wells; however, in order to balance the natural decline in production from these two oil fields, five wells were drilled during the year. On the North Bahariya concession seven development wells were drilled during 2007. By the end of 2007 on the four fields on this concession there were 13 producing wells, however their yield is dramatically declining and INA is considering disposal of licence rights on this concession.

On the Ras Qattara concessions there are two oil fields on which nine new development wells were drilled out of twelve new wells that had been planned for drilling in 2007.

Syria

On the Hayan block in Syria INA is the operator with a 100-percent share.

Production is in course on the oil fields Jihar and Jazal and the Palmyra gas field.

In 2007 INA submitted two Notices of Commercial Discovery to the Syrian Ministry - for the Jazal field in Janury and for the Mustadira gas-condensate field in the middle of the year. The development plan for the Jazal field was prepared in May and the field was put into production by the end of October with the well Jazal-1ST. The location of the other development well Jazal-2 was selected in September.

Drilling of the Jihar-8 well commenced in the middle of October 2007. The selection of the site for the Mustadira-2 well was performed in August and its drilling, which began in the middle of November, is in progress. A new inlet manifold was installed on the oil and gas station (OGS) on the Jihar field so as to enable acceptance of production from the Jihar and Jazal fields.

Oil and gas reserves as of 31 December 2007

Croatia

	Unit	Proved	Proved +probable	Proved +probable +possible	Unit	Proved	Proved +probable	Proved +probable +possible
Oil	10^3 m^3	10,113	12,906	12,906	10^3 bbl	63,604	81,172	81,172
Condensate	10^3 m^3	2,497	2,649	2,674	10^3 bbl	15,704	16,660	16,819
Total (oil+condensate)	$10^3 m^3$	12,610	15,555	15,581	10^3bbl	79,308	97,833	97,992
Associated gas + gas cap	10^6 m^3	1,667	3,091	3,091	10^6 bbl	10,486	19,440	19,440
Free gas - onshore	10^6 m^3	14,999	17,367	17,665	10^6 bbl	94,334	109,223	111,101
Free gas - Adriatic offshore	10^6 m^3	13,907	16,053	20,052	10^6 bbl	87,463	100,965	126,115
Total Gas	10^6 m^3	30,573	36,511	40,808	10^6 bbl	192,283	229,628	256,657
OE	**10^3 m^3**	**41,226**	**49,730**	**53,777**	**10^3 boe**	**259,284**	**312,765**	**338,222**
NPV10 after tax	10^6 USD	3,339.2	4,011.9	4,131.7	10^6 USD	3,339.2	4,011.9	4,131.7

Other Countries

	Unit	Proved	Proved +probable	Proved +probable +possible	Unit	Proved	Proved +probable	Proved +probable +possible
Oil	10^3 m^3	1,453	2,179	2,614	10^3 bbl	9,136	13,706	16,438
Gas	10^6 m^3	329	6,604	6,761	10^6 bbl	2,066	41,535	42,519
Condensate	10^3 m^3	4	1,537	1,537	10^3 bbl	28	9,668	9,668
OE	**10^3 m^3**	**1,764**	**9,898**	**10,479**	**10^3 boe**	**11,097**	**62,251**	**65,904**
NPV10 after tax	10^6 USD	325.3	942.3	1,047.0	10^6 USD	325.3	942.3	1,047.0

Total

	Unit	Proved	Proved +probable	Proved +probable +possible	Unit	Proved	Proved +probable	Proved +probable +possible
Oil	10^3 m^3	11,566	15,086	15,520	10^3 bbl	72,740	94,879	97,610
Gas	10^6 m^3	30,902	43,115	47,569	10^6 bbl	194,349	271,164	299,176
Condensate	10^3 m^3	2,501	4,186	4,212	10^3 bbl	15,731	26,328	26,487
OE	**10^3 m^3**	**42,991**	**59,628**	**64,256**	**10^3 boe**	**270,382**	**375,016**	**404,126**
NPV10 after tax	10^6 USD	3,664.5	4,954.2	5,178.7	10^6 USD	3,664.5	4,954.2	5,178.7

* Reserves assesment was carried out by PGL Engineering Geoscience, independent oil industry consultants.

Oil and gas production in 2007

In 2007 INA produced 1.14 million tonnes of oil and gas condensate on production fields in Croatia and internationally:

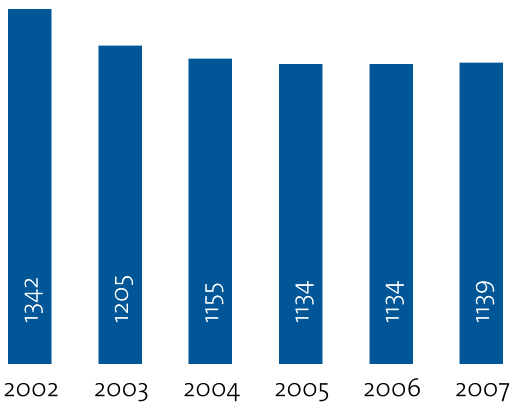
- in Croatia 596,013 tonnes of oil and 283,052 tonnes of gas condensate
- in Angola 82,802 tonnes of oil
- in Egypt 145,101 tonnes of oil
- in Syria 32,210 tonnes of oil

In Croatia oil was produced from over 700 production wells on 34 oil fields. About 10 percent of total oil production was recovered by natural flow, while the remaining wells employ artificial lift: 39 percent gas lift and 51 percent pumped .

In addition to oil and gas condensate, 2.6 million m^3 of water was extracted from the reservoirs. The water was separated, treated and reinjected into reservoirs or used for injection into the wells where secondary methods of enhanced recovery are applied.

In November 2007 the new oil field Jazal was put into production in Syria on the well Jazal-1.

Production of oil and condensate (000 t)



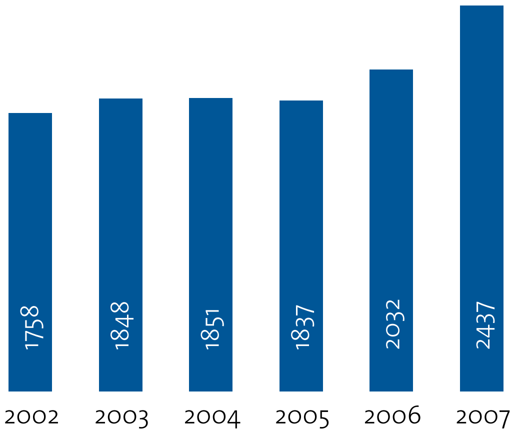
PINA's natural gas production totalled 2.437 bcm:

- in Croatia 2.355 bcm of gas
- in Syria 82 mcm of gas

Onshore natural gas production from the fields in the Pannonian basin accounts for 51 percent of total production, i.e. 1.204 bcm, while INA's share in production from the Adriatic offshore fields increased to 49 percent of total domestic output.

Gas production from the North Adriatic concession area amounted to 958 mcm and from the Aiza Laura contract area 193 mcm.

Natural gas production (in million m³)



The Okoli underground gas storage was working in the XIX and XX production cycle and XX injection cycle during which 383 mcm of gas was produced and 267 mcm injected into the storage. During the year INA prepared a study on possible gas injection over initial reservoir pressure and carried out a trial injection up to a working volume of 630 mcm of gas.

In order to achieve planned production levels on the older fields, various workover operations were carried out during the year. The operations included 31 capital workover operations including hydraulic fracturing, gravel pack and chemical stimulation, 301 regular workover and 7 well equipment overhauls. For this purpose INA invested about HRK 154 million. The implementation of the above workover operations resulted in increased production of crude oil by 14,155 cm, 13.8 mcm of gas and 2,045 cm of gas condensate.

In addition, reconstruction and optimization of surface gathering systems and processing plants was performed according to plans.

As part of safety and environmental protection programmes, the 2.4 km section of oil pipeline from Stružec to the Sisak refinery was replaced. Regular annual overhaul on the Molve gas treatment plant and the Ethane plant at Ivanić Grad was performed in September 2007.

The Ethane plant at Ivanić Grad produced 97,028 tonnes of LPG and 59,734 tonnes of ethane.
In accordance with consumers' needs, in 2007 INA produced 0.4 million cm of geothermal water and 2.5 million cm of fresh water.

In 2007, INA planned CAPEX in the amount of HRK 222 million in fixed assets for processing facilities, environmental projects and equipment, of which HRK 189 million, or 85%, was realized.

The implementation of the Enhanced Oil Recovery (EOR) project on the mature oil fields Ivanić and Žutica continues. In addition to increased oil production from these fields, this project is important because it will also significantly contribute to reduction of CO_2 emissions. After approval of the feasibility study, various documents and studies have been prepared for engineering solutions on the Molve gas treatment plant and Ethane plant where certain volumes of carbon dioxide will be compressed and transported through existing pipelines to the injection wells on the Ivanić and Žutica oil fields. The location permit has been obtained for the Ivanić field. The workover operations were performed on part of the injection wells. Procurement of necessary process equipment was also initiated.

The works on the Međimurje project continued with drilling of the new Vuč-5 well on the Vučkovec field, while Vučkovec-3 and Vukanovec-1 wells were tested. This project is aimed at developing three new natural gas fields (Vučkovec, Vukanovec and Zebanec) in the Međimurje region in the north of the country. Preparation of the project documentation is in progress. Natural gas from these wells contains carbon dioxide which would be extracted and also used for injection to improve oil recovery on the Ivanić and Žutica fields .

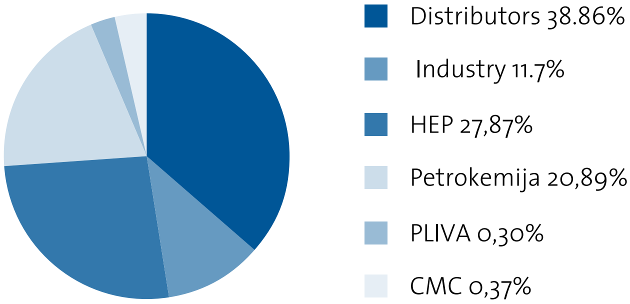
Within the scope of the third development phase on the North Adriatic project, various design and engineering documentation was prepared for obtaining construction permits.

Natural gas supply and sales

Natural gas sales

In 2007 INA sold 3.1 billion cm of natural gas to eligible and tariff customers in Croatia. The structure of customers and their market share is presented in the figure presenting :

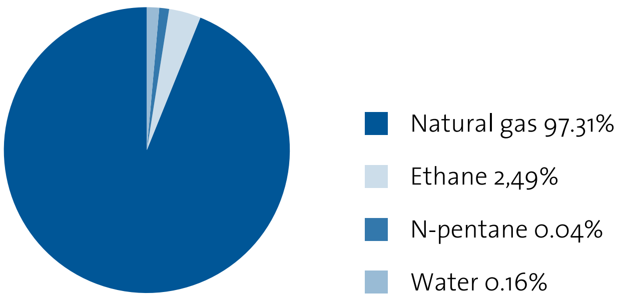
Natural gas volumes sold in 2007 according to category of customers



With the implementation of the new gas market law passed in August 2007, the structure of INA's gas customers changed. The new law creates conditions for a further opening of the Croatian gas market. According to the new law all customers not belonging to the "household" category have the status of eligible customer. This is a change in respect to the previous law introduced in 2002, according to which eligible customers were those whose gas consumption exceeded 100 million cm or those that used gas for cogeneration. The new law stipulates that after 1 August 2008 all natural gas wholesale consumers would have the status of eligible customer, which means that the market would be liberalized.

After the new law came into force in August 2007, the supply of gas to tariff customers became a regulated activity with capped prices. Consequently, the Government set the price cap at HRK 1.07/cm/33.33835 MJ. This price is far below the price INA is paying for imported gas. In addition, INA as nominated supplier of tariff customers in Croatia is obliged to keep separate accounts for gas sold to tariff and eligible customers respectively.

Revenue generated by sale of natural gas, ethane, N-pentane and water



At the beginning of August 2007 INA negotiated contract prices with the two largest eligible customers: the Croatian electricity company - HEP and the fertilizer plant Petrokemija, Kutina.

In 2007, E&P Division generated gas sales revenue amounting to HRK 3.4 billion. In addition to natural gas, the Commercial Sector sells ethane, n-pentane and water. The total revenue generated by all these products was HRK 3.5 billion, which is 15% higher than the previous year.

Natural gas supply

The production of natural gas from domestic reserves (onshore and offshore) covers 64% of the total demand for natural gas in Croatia; the rest is imported from Russia.

Domestically produced gas is delivered from INA's production lines and measuring stations into the transmission operator's system, which performs transportation of gas to distribution companies and industrial consumers in Croatia.

The Commercial Sector within E&P is responsible for performance of all activities related to long-term gas import contracts, as well as transportation contracts for transit of gas through Slovakia, Austria and Slovenia to the Croatian border. The long-term contract for the supply of natural gas by Gazprom Export is in force till the end of 2010.

In order to secure a possible import route for additional volumes of gas so as to meet increased demand, INA has acquired transport capacity through Slovenia and the off-take point Gorizia on the Slovenian-Italian border enabling import of an additional 330 million cm in 2008.

Refining and Marketing

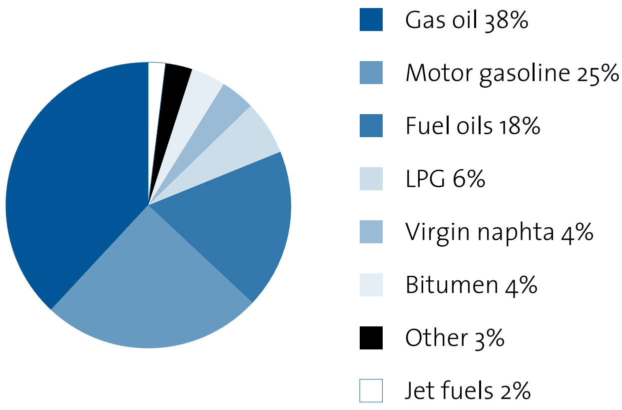
The Refining and Marketing Segment recorded good business results in 2007, in spite of unfavourable market influences, stronger competition and inability to set prices on the domestic market freely. Higher efficiency on all levels of this business segment, which was reflected in crude oil purchase, production and sales, offset the adverse external influence.

Production of refinery products increased by 9 % over 2006. During 2007, INA's refineries processed 4,987 million tonnes of imported and domestic crude oil, or 5,343 million tonnes if we include refining of atmospheric residue and semi-finished products. In comparison with 2006, refineries processed 47 thousand tonnes less from domestic sources and 399 thousand tonnes more of imported crude oil. Domestic crude oil accounted for 15 % in total refining. In the refined oil structure, the share of Russian REB oil amounted to 66.9%, and an 18.1 % share belongs to medium-sulphuric oil. The totality of imported oil was delivered by sea.

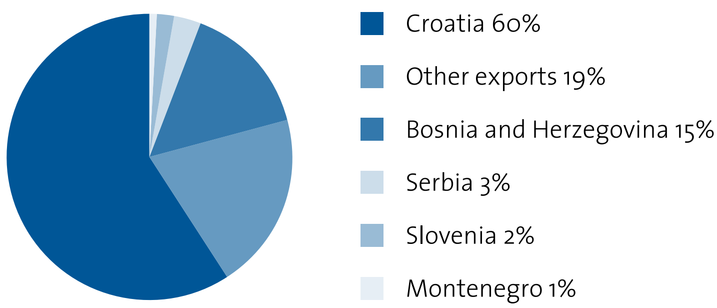
In 2007, the Rijeka Oil Refinery processed a total of 3.132 million tonnes of imported crude oil and 155.4 thousand tonnes of atmospheric residue from import. The Sisak Oil Refinery processed 789.2 thousand tonnes of domestic crude oil and 1.066 million tonnes of imported crude oil.

During 2007, 4.7 million tonnes of oil products were produced, which is 9.1 % more than in 2006. The Rijeka Oil Refinery produced 3.1 million tonnes and the Sisak Oil Refinery produced 1.7 million tonnes. Product output was improved in relation to the previous year, and production of white products was increased. The production of Euro quality products is 10.1% higher than planned and as much as 24.0% higher than in 2006. Production of Eurosuper 95 and Eurodiesel makes up 24.5 % of the total production of oil products, amounting to 26.9 % or a total of 1.3 million tonnes, with jet fuel JET A-1 included.

Share of groups pf products in total INA sales in 2007



Sale of oil products per markets in 2007



Over the previous year, the strong growth of world oil and oil products prices continued. The average price of imported oil amounted to 2,716 HRK/t, which is 13.6% above the price of oil imported in 2006. The average price of processed oil was 11.6 % higher than planned. Over the year, the price of oil continuously grew, and the impossibility of compensating the total oil price through oil products on the market within the Rulebook for Determination of Prices on the Domestic Market, as well as the free import to neighbouring markets, had an adverse effect on the business results of the Refining and Marketing Segment. The Croatian Agency for Obligatory Oil and Oil Products Reserves for 2007 increased the amount of assignment obligation for financing the Agency, and the obligation to maintain reserves with the obligation of keeping reserves without compensation was reduced.

In 2007, the Refinery and Marketing Segment achieved total sales of oil products in the amount of 4.817 million tonnes, 2.881 million tonnes of which, or 60 %, was sold on the Croatian market, and 1.9036 million tonnes, or 40%, on export markets.

In 2007, the level of sales on the domestic market maintained the 2006 level, and sales to export markets recorded growth by 107,363 tons or 5.9 % over 2006. Sale of Euro quality motor fuels also grew by a significant 19%, which is the result of the sales increase of motor fuels of Euro quality by 82,979 tonnes and diesel fuels of Euro quality by 136,801 tonnes in 2007 over the previous year. Sale of motor fuels on the domestic market continues to decrease, as well as that of gas fuels, and the sale of fuel oils is higher due to growing needs of HEP. A decrease of bitumen sale was also recorded.

A remarkable export was achieved by selling liquefied petroleum gas, petrol group and gas oil groups.

The export of oil products to our most important market in the region - Bosnia and Herzegovina, continues with a trend of significant growth in 2007 by 12% over the previous year. During 2007, an increase of exports of certain oil products to the Serbian market was recorded, these products including LPG, bitumen and base oils. INA has no possibility of placing motor gasolines and diesel fuels in the Serbian market due to the Decree on Prohibition of Oil Products Import passed by the Government of Serbia.

The sale of oil products on the markets of Montenegro and Slovenia is lower than in the previous year. Sale to other export markets (not including surrounding countries) records growth in 2007 in relation to 2006.

Aiming at expansion of INA's activities in the region, INA commenced with commercial activities on the Kosovo market in September 2007.

Activities of bringing imports to the minimum required level, among others, have ensured targeted and planned positive results of the Refining and Marketing Segment. During 2007, import of oil products was reduced by 31%, proving the more efficient use of in-house production capacities and resources. Apart from using own production to cover the domestic and regional market, 51,416 tonnes of Eurosuper 95 (50 ppm), 134,522 tonnes of Eurodiesel (50 ppm S) and 2,925 tonnes of jet fuel JET A-1 were imported.

The overall share of INA's sales on the domestic market remained the same as in 2006, but the share on surrounding markets was increased in comparison with the previous year.

During 2007, intensive modernisation of both refineries continued.

At the Sisak Oil Refinery, a new plant for desulphurisation (Claus) was brought into operation in 2007, and at the same time the new plant for hydrodesulphurisation of petrol (HDS FCC-petrol) is under construction, whose finalisation and connection is planned for September 2008 during a general overhaul of the refinery. At the Sisak Oil Refinery the preparation of design documents for new Isomerisation Plant is under way, being an important plant within the INA refinery modernisation project.

At the Rijeka Oil Refinery, a contract with ABB Lummus was signed for the construction of Hydro cracking/HDS of gas oils, which will in 28 months provide for production of diesel fuels in accordance with requirements of the operative European standards. During 2007, the construction of the new plant for desulphurisation (Claus) and the plant for production of hydrogen at the Rijeka Oil Refinery was contracted. Operations on the modernisation of the Isomerisation plant were finished, and it will be brought into operation in February 2008, thus increasing the production of Euro quality motor gasolines.

Through the wholesale storage of this segment, 925,740 tonnes of turnover was achieved, or 8% less than in the previous year. A total of 2.915 million tonnes of goods was transported by all transport modes, 56% of which was transported by road, 31% by waterway transport and 13% by rail.

In 2007, the implementation of the most recent IT solution for optimisation of road transport commenced in the Logistics Sector, whose application will significantly contribute to increased utilisation of the transport system, consequently resulting in significant savings on road transport costs. Intense activities on reconstruction, computerisation and technical-technological upgrade of measuring systems on all terminals managed by the Logistics Sector continued. In addition, the programme of shortage monitoring in transport of oil products in road traffic was prepared.

Chronology of refinery processing in kilo tonnes

	2002	2003	2004	2005	2006	2007
Domestic oil	1,059	973	935	855	836	789
Imported oil	3,771	3,895	4,145	3,999	3,799	4,198
Atmospheric residue and semi-products	418	597	426	320	265	356
Total feedstock	**5,248**	**5,465**	**5,506**	**5,174**	**4,900**	**5,343**

Structure of produced products is illustrated in the following table.

Production of oil products in 2007 in 000 tonnes

	2002	2003	2004	2005	2006	2007
Liquefied petroleum gas	293	304	298	290	266	307
Virgin naphtha	169	170	212	177	170	188
Motor gasoline	1,209	1,261	1,226	1,168	1,047	1,187
Gas oils	1,814	1,949	1,964	1,702	1,634	1,748
Fuel oils	798	772	753	906	847	945
Coke	55	39	42	33	52	43
Bitumens	188	213	217	181	216	190
Motor oils	14	12	12	11	11	12
Base oils	48	35	33	36	25	44
Paraffin	9	8	9	7	7	9
Other	9	8	19	33	30	41
Semi-finished products	33	66	88	26	36	22
Total products	**4,639**	**4,837**	**4,873**	**4,570**	**4,341**	**4,736**
Technological fuel and losses	609	628	633	604	559	607
Total	**5,248**	**5,465**	**5,506**	**5,174**	**4,900**	**5,343**


INA

Retail Segment

The Retail Segment manages a network of petrol stations in Croatia, Slovenia and Bosnia and Herzegovina. Put into figures, this means 432 petrol stations in Croatia (INA, d.d. owns 412 petrol stations, and daughter companies own 20), six in Slovenia and 41 in Bosnia and Herzegovina. The network's potential was strengthened by a certain number of petrol stations which are currently subject to property restitution proceedings. Some of them are in Bosnia and Herzegovina, and the others in Serbia and Montenegro. There are 498 points of sale in the retail system.

During 2007, the retail network in Croatia was organised into 6 retail regions comprising 17 retail units which coordinated the work of the 412 petrol stations (as at 31 December 2007).

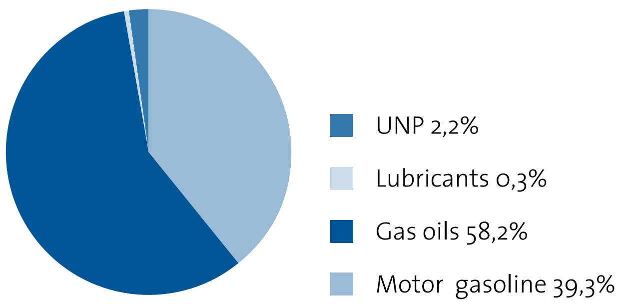
During 2007, the total sales of refined products on the Croatian market amounted to 1,160,000 tonnes and represent 3.4 % increase in comparison with planned sales, while in comparison with the previous year they increased by 0.8%.

Fuel sales (gasoline and gas oils) accounted for 97.5 % of the total sales, whereas the share of non-fuel products was 2.5%. In comparison with the previous year, share of gas oils sales in total sales increased, while the sale of motor gasoline decreased. Due to changes in car fleet structure and market adjustment, the trend of increased sale of fuels of European quality continues.

The assortment of consumer goods was defined by more than 2,400 different products on Petrol stations. In 2007, their sales accounted for HRK 565.2 million (without VAT), which was a 6% increase over 2006. The margin on consumer goods was 8% higher than last year.
The offer was expanded by some additional products and services and by some new, innovative services such as "coffee-to-go", consumer ice, expanded fast-food offer. An additional step forward was the category management pilot project which represents a concept created on a consumer scale. A great novelty in the offer represents the commercially well conceptualised souvenir-shop within the PUO Vukova Gorica, which represents a step forward by its appearance, offer and service, raising this concept to a higher level.

By orienting themselves towards consumers, their wishes and needs, Ina's petrol stations demonstrate their dominant position in this type of retail channel. By continuous promotions, prize competitions and tastings, INA attracts customers to a pleasant visit and return.

Volume of sales by product group in 2007.



In 2006 two new petrol stations were built and put into operation: PUO Spačva and PUO Vukova Gorica. The letter is the biggest petrol station in Croatia, located on main routes towards Rijeka and Split, on the 56th kilometre of the highway from Zagreb, and is one of Ina's business-catering facilities of the newest generation.

The Sisak-Zagrebačka, Đakovo-Nazorova and Labin petrol stations underwent capital reconstruction, and PS Borki, PS Zadvarje, PS Koška, PS Novalja Špital and PS Kneževi Vinogradi underwent modernisation in line with INA's already recognised visual identity. Apart from selling motor fuels, all the petrol stations have modern shops selling consumer goods and auto-bars, as well as additional programmes developed pursuant to customers' demands.

Investment activities continue to bring further technological and safety improvement at petrol stations (visual identity, information technology, implementation of SAP system, installation of video surveillance, alarm systems, safes, etc.) Special emphasis is put on environmental issues and responsible behaviour towards nature.

The Card business sector accounted for 50.24% of the total retail revenues by charging INA card and other cards on retail points. The service of toll payment by INA card on domestic highways was expanded to the Zagreb-Macelj highway.

The strategic goal of the Retail Division is to strengthen the INA brand by an aggressive upgrading of the retail network, through relationships with both partners and the general public, primarily focusing on the buyer.

Achievement of these goals will enable INA to remain a serious lading retail company in wider regional surroundings.

Corporate Services Function

Information services sector

For the Information Services Sector, 2007 was primarily the year of SAP system stabilisation, and the upgrade of the process and organisational prerequisites for SAP support of higher quality. Also to be pointed out is the successful implementation of the SAP Competence Centre which provides for high-quality support to the SAP system.

The improvement of INA, d.d.'s information system continued with the further development of the information systems of refineries and petrol stations. Further improvements were also made in IT infrastructure, standardisation of IT operations and information security (in that regard, we mention the ISOP2- Information Security Outsourcing Project).

We should also highlight the achievements of the information production system in refineries. At the Sisak Oil Refinery, sections of the application (monitoring the situation in tanks - reserves, calculation of consumption of energy generating products, monitoring daily production, calculation and analysis of monthly production, monitoring consumption of chemicals and additives) were put into functioning pursuant to the plan.

The Information Services Sector also cooperates in the OptINA project (optimisation of costs). We wish to point out the conclusion of new contracts, changes of tariff systems and optimisation of use of mobile telephony, which in the end resulted in savings according to the plans.

The support for daughter companies and associate companies was expanded, and besides Maziva - Zagreb d.o.o., it now covers INAgip d.o.o.. Preparations for provision of support to SINACO d.o.o. and ED-INA d.o.o. in 2008 were carried out.

Procurement sector

The Procurement Sector successfully achieved significant reduction of contracted values in 2007 in comparison with the offered values in the negotiating procedure, thus ensuring average savings of 3%.

The Act on Public Procurement was applied only to procurement for meeting the needs of the Oil and Gas Exploration and Production Division, while other parts of INA, d.d. were not subject to that procedure.

Moreover, we must point out the development of negotiating skills of the Procurement Sector's staff, as one of the key elements in the competence development project (Capability Building) led by McKinsey Consulting.

We also wish to point out success of the OptINA project in the area of standardisation of key needs on the corporative level, as well as the significantly higher number of concluded frame agreements.
All procurement processes proceed via the SAP system, and the Sector fully manages the overall procurement of non-HR material.

Storage & inventory management sector

Over 2007, the project of integrating non-HC storage business was successfully finalised, and all activities referring to non-HC inventories - storing, management, disposal of excess stocks... --- were integrated into the Storage and Inventory Management Sector.

These 11 warehouse locations, which were formerly managed centrally, are spread across the Republic of Croatia. Furthermore, the integration will provide for transparency of costs and create the foundations for further optimisation and rationalisation.

All business processes of the Sector are supported by the SAP system modules for storing and management of inventories. Along with the implementation of the SAP system, the Sector has developed the activities on management and control of inventories on the corporative level. Apart from the successfully implemented integration, we point out that non-HC inventories were reduced by 27.52% in 2007 in comparison with inventories on January 1st 2007, at the same time without recorded incidents conditioned by shortage of stock.

Maintenance management sector

In 2007, there were no major planned overhauls.
Business processes were supported by SAP system modules (PS, PM and BW module and application of CAPEX work orders through SAP for maintenance investment projects).

A long-term (three-year) contract with the STSI dependent company was successfully concluded for maintenance activities, achieving significant savings on the annual level of approximately HRK 7 million.

Facility management sector

In 2007, the Facility Management Sector continued the rationalisation programmes of business and taking over of activities not functioning as operating activities from other parts of INA, d.d. In that connection, we point out the successful implementation of the following projects in 2007:

- The project on integration of activities that are not in the function of Refining and Marketing operating activities
- Conclusion of the Service Level Agreement (SLA agreement) in the area of facility maintenance management
- The project on rationalisation of car rental costs via OptINA Project
- The ECR Project (electronic central records) which connected input accounts into INA, d.d. with the SAP system.

In addition to this, the Facility Management Sector continues its work in the field of countless projects regarding optimisation of business activities and taking over activities which do not function as operations of other parts of INA d.d

07

Strategic partnership with MOL

Strategic partnership with MOL

Strategic partnership

By acquiring 25% plus one share, MOL became INA's strategic partner and INA found its way into an integrated regional oil and gas industry partnership consisting of MOL, INA, Slovnaft and TVK. The cooperation and the materialisation of synergies have continued in the year 2006.

Joint Upstream activities

In 2007 INA and MOL continued the work in upstream activities. After signing the Contract on Joint Drilling of exploration wells Zalata (Hungary) and Podravska Slatina (Croatia) in September 2006, in 2007 first results on Zalata-1 well were announced, where hydrocarbon reserves were discovered. In September 2007 INA and MOL have signed the Contract on Joint Drilling of the border area Novi Gradac (Croatia) and Potony (Hungary), aiming at discovery of new hydrocarbon reserves. Investments in the joint project and production share are determined 50:50 by the Contract.

INA and MOL are jointly evaluating the international upstream business opportunities for possible future cooperation on international projects. By diversifying risk and combining the financial and human resources, both companies will improve operations and efficiency.

Support in the Refinery Modernisation Programme

Another key area of the current cooperation between INA and MOL include the development and implementation of a full modernisation program at both of INA's refineries.

The comprehensive refinery modernisation project has as its objective to rank INA among the most technically advanced refiners in the region by expanding the refining capacity and reaching EURO V quality standards of oil products which are expected to become effective in 2009. In implementation of the refineries modernisation programme, INA benefits from MOL's experience in modernising its own refineries.

Regional retail network development

The mutual acceptance of branded fuel cards at both INA and MOL petrol stations continued to prove successful in 2007.

The partners have consolidated a marketing strategy for the South East European region, including the review of retail positions in the region.

Integrated SAP system

In 2007 INA stabilised the SAP system and upgraded process and organisational prerequisites for higher-quality SAP support, once more relying on MOL experiences regarding the integrated SAP system.

INA and MOL Shareholders Agreement

After selling 7% shares to former and current INA employees, the ownership structure of the company has changed and now less than 50% of total shares lies in state ownership. In this connection, the Croatian Government and MOL have started negotiating the modification of the Shareholders Agreement.

Other areas of cooperation

Further development of partnership relations are intended to enable us to exploit synergies in all business aspects. The exchange of knowledge and the implementation of joint projects are intended to assist INA in the realisation of our growth targets in regional oil, natural gas and refined product markets. Joint cooperation of the two companies ensures the establishment of communication channels which should provide better utilisation of each company's speciality in specific areas.

Broadening cooperation: Energopetrol acquisition

In September 2006, MOL/INA consortium (50% INA and 50% AND MOL) signed a Recapitalisation Agreement with the Government of the Federation of Bosnia and Herzegovina and Energopetrol for the acquisition of a 67% interest in Energopetrol. In 2007, the consortium took over the management of that company, which is a market leader on the retail market of oil products in Bosnia and Herzegovina.

07

Financial results

Financial results

Changes in accounting policies

In the current year, the Company and the Group have adopted and applied all new and revised Standards and Interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC), which refer to their operation and are effective for accounting periods that have commenced on January 1st 2007, (MSFI 7 Financial instruments), as well as IFRIC 7-10 interpretations which have been effective since 2006.

Adoption of new and revised interpretations has not affected the changes in accounting policies of INA Group.

Most important financial data for 2007

INA Group - financial data	2006		2007		% changes	
(MSFI)	HRK mil	USD mil	HRK mil	USD mil	HRK mil	USD mil
Net income from sales	23,434	4,016	25,848	4,819	10,3	20,0
EBITDA	2,474	424	2,803	523	13,3	23,3
Operating profit	974	167	1,020	190	4,7	13,9
Net financial profit (loss)	131	22	113	21	(13,7)	(6,1)
Net profit	883	151	869	162	(1,6)	7,1
Net cash from business activities	1,429	245	2,416	450	69,1	84,0

Important financial indicators for 2007

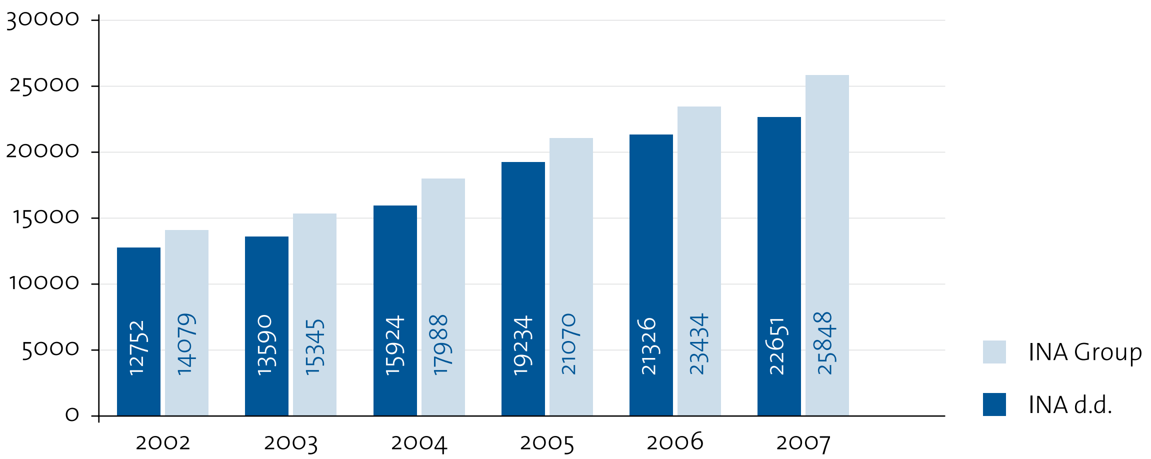
In 2007 INA Group recorded a 10% increase of net income from sales, reaching the level of HRK 25.8 billion, primarily on the basis of more quantities sold (2.5% of refinery products, 16% of natural gas and 20% of crude oil) and higher selling prices.

Profit from operating activities increased by 5% over the previous year, reaching the amount of HRK 1,020 million (USD 190 million). Natural gas production and sold quantities of refinery products also increased, and this, along with the higher selling price of natural gas, has positively affected the results. This effect was partially offset by the increased amount of calculated depreciation. Net financial profit in 2007, mostly resulting from positive exchange rate differences, was reduced in relation to the previous year by 13.7% to HRK 113 million, due to higher interest costs and other financial costs.

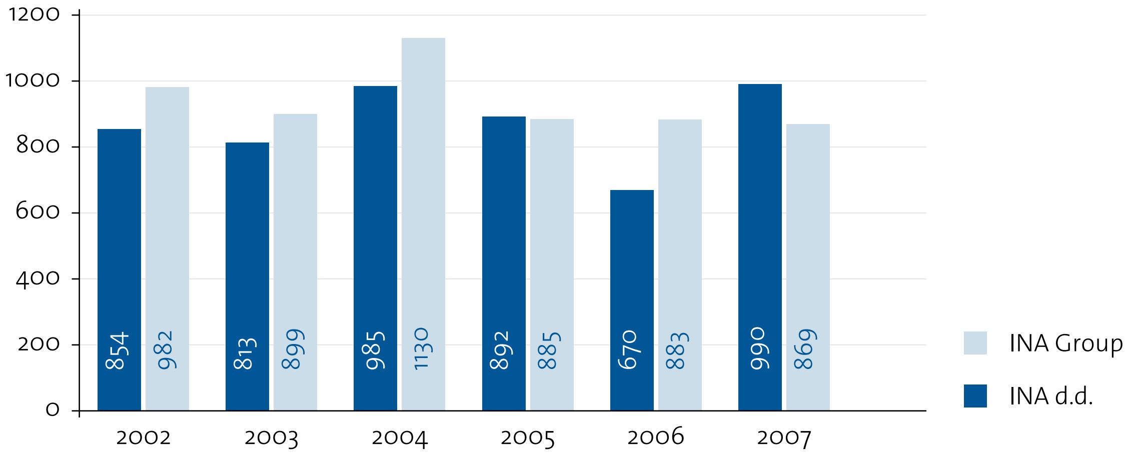
The net profit of INA Group in 2007 amounted to HRK 869 million (USD 162 million).

The operating cash flow of INA Group in 2007 increased in relation to 2006 by 69% and amounted to HRK 2,416 million. Operating cash flow before changes in working capital is 10% higher, primarily as a result of higher depreciation. With an increase of working capital, the inventories were reduced by HRK 52 million as a result of changes in claims and obligations towards suppliers and increase of inventories. Other liabilities (tax) were reduced by HRK 37 million. Capital investments of the Company amounted to HRK 2,896 (USD 540 million) in 2007 and for the most part related to exploratory and development operations in the North Adriatic, Syria and Egypt, and to ongoing projects in the Refineries and Marketing segment (continuation of implementation of refinery modernisation plan). Investments were financed from increased indebtedness by HRK 895 million in relation to December 31st 2006.

Income from sales (in HRK mil)



Net profit (in HRK mil)



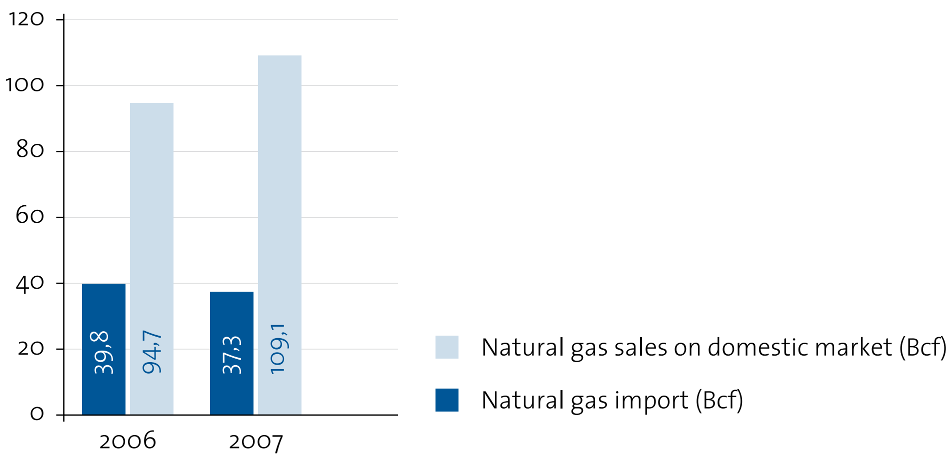
Oil and Gas Exploration and Production

Segments IFRS	2006		2007		% changes	
results In millions	HRK	USD	HRK	USD	HRK	USD
Profits*	6,794	1,164	8,133	1,516	19,7	30,2
Income from operating activities	1,623	278	2,045	381	26,0	37,1
CAPEX	1,747	299	1,559	285	(10,8)	(4,7)

* gross principle

Profit from operating activities increased in 2007 by HRK 422 million to the amount of HRK 2,045 million (USD 381 million), mostly due to a 12.2% higher daily production of hydrocarbons, reduced import of natural gas, higher selling process of oil and gas and bigger scope of work of the CROSCO group for third parties. These positive results were partially reduced by increased depreciation.

Import and sales of natural gas



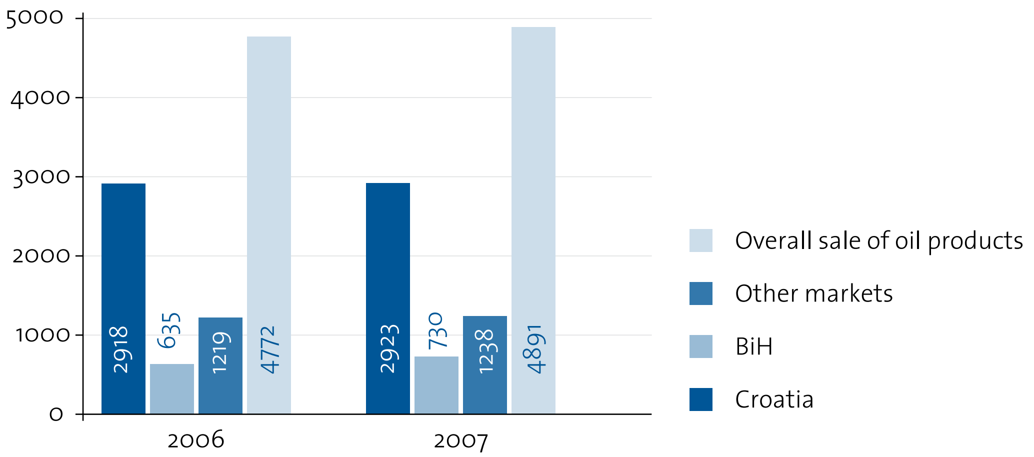
Refineries and Marketing

Segments IFRS	2006		2007		% changes	
results In millions	HRK	USD	HRK	USD	HRK	USD
Profits*	18,136	3,108	18,764	3,498	3,5	12,6
Income from operating activities	170	29	59	11	(65,3)	(62,2)
CAPEX	850	146	985	184	15,9	26,1

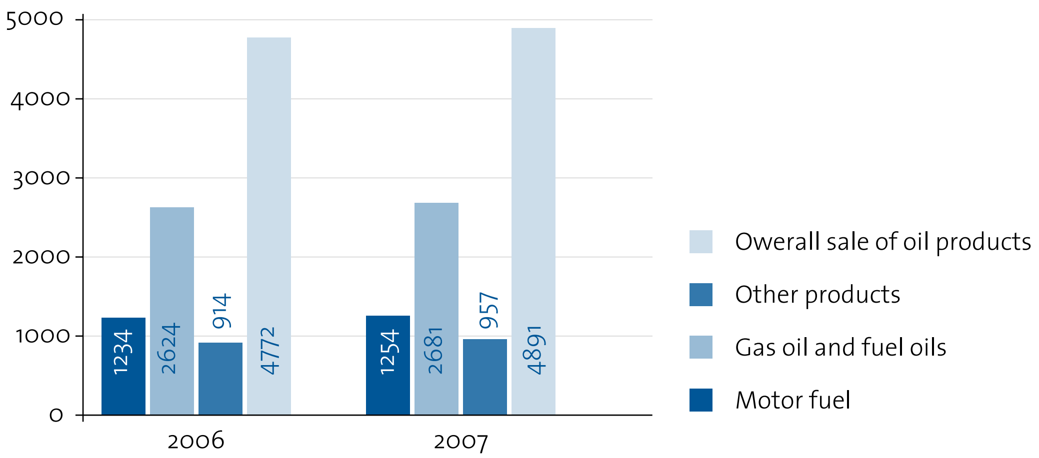
* gross principle

The Segment has attributed to INA Group results in 2007 with HRK 59 million (USD 111) of income from operating activities, which is HRK 111 million less than the previous year. The positive effect of 2.5% more quantities sold and 24.6% higher average margins was primarily reduced by higher costs of maintenance and higher depreciation. In 2007 as well, the adverse effect of capping the motor fuel prices on the domestic market has continued.

Sale of Refinery Products (000 t)



Sale of Refinery Products (000 t)



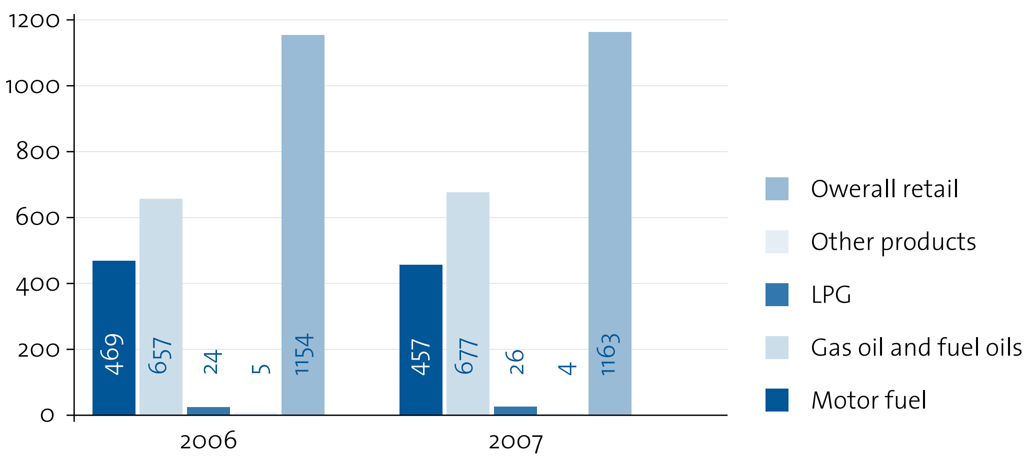
Retail Division

Segments IFRS	2006		2007		% changes	
results In millions	HRK	USD	HRK	USD	HRK	USD
Profits*	5,669	971	5,850	1,091	3,2	12,3
Income from operating activities	33	6	(90)	(17)	-	-
CAPEX	117	20	212	40	81,2	97,2

* gross principle

The average throughput per petrol station maintained the level of achievement of 2006 and amounts to 2,816 tonnes. Pursuant to the INA Retail Strategy, the number of petrol stations in Croatia rose by five. In 2007, in operating activities, the Segment showed a loss in the amount of HRK 90 million (USD 17 million), which represents a more unfavourable result by HRK 123 million than the previous year. This is a consequence of poorer results in the fourth quarter of 2007 in relation to the fourth quarter of 2006, primarily resulting from sale of reduced quantities by 1.2%, and 49% lower retail margin due to the adverse effect of capping motor fuel retail prices (which is divided with the Refinery and Marketing Segment in equal shares).

Oil Products Retail



Corporative functions and other

The Segment has achieved HRK 994 million or USD 185 million from operating activities in 2007, which is HRK 142 million less than the previous year. Income from maintenance services and other services of corporative support has fallen; while operating costs of corporate functions have increased (the increase was partially offset by lower controllable costs due to the OptINA programme of efficiency upgrade, while other costs rose mostly as a result of increased depreciation and reservation for environmental protection and severance payments.)

Business environment

The following factors affected the financial results of INA, d.d.: During 2007, the Croatian economy continued its strong growth which reached the rate of almost 6% by the end of the year. Inflation (measured by the index of consumer prices) was reduced from 3.2% in 2006 to 2.9% in 2007. The inflation rate in December rose to 5.8% mostly due to higher prices of food, housing and energy sources.

Prices of crude oil (Brent FOB Med) continuously grew over the year, from USD 50 USD per barrel in January to USD 96 USD/bbl in December, and the overall increase over 2006 amounted to 11.56% (from average 65.14 USD/bbl to 72.67 USD/bbl in 2007). The generator of the price increase was a stronger demand caused by growing energy needs of developing markets with high growth rates (China and India), added to political instability in countries that produce oil.

Refinery margins reached in 2007 rose from 39.5 USD/mt in 2006 to 48.66 USD/mt. According to Platts quotations (FOB Med - Italy), the margin for unleaded super 50 ppm rose by 15.1% (from 117.8 USD/t in 2006 to 135.6 USD/t in 2007), while the negative margin for fuel oil of 3.5% was reduced by 1%(from -212,2 USD/t in 2006 to -210,1 USD/t in 2007). The margin for diesel EN590 50 PPM rose by 2.9% (from 107.5 USD/t in 2006 to 110.7 USD/t in 2007).

The USD depreciated by an average of 8.1% against the HRK, to 5.36 HRK/USD, that is, to 10.6% on December 31st 2007 (4.99 HRK/USD) when compared to December 31st 2006. At the same time, there was slight appreciation of the Euro by an average of 0.2%. The year-end EUR exchange rate remained almost unchanged (from HRK 7.33 in 2006 to HRK 7.35 in 2007).

Cash flow

INA-Group cash flow (in HRK million)	2006	2007
Business activities	1,429	2,416
Investment activities	(3,025)	(2,884)
Financial activities	1,819	576
Net growth/fall of cash	223	108

* gross principle

Operating cash flow in 2007 increased over 2006 by 69% and amounted to HRK 2,416 million. Operating cash flow before changes in working capital increased by 10%, primarily as the result of higher depreciation. The increase of working capital decreased the funds by HRK 52 million, primarily resulting from the change in receivables and obligations towards suppliers in the amount of HRK 479 million, that is HRK 860 million, as well as an increase in inventories of HRK 448 million. The tax payment in the amount of HRK 168 million is lower due to lower corporate taxes (in 2006, liabilities were paid pursuant to accounting for the previous year and on a high monthly advance payment determined on that basis).

Net cash outflow for investing activities was reduced by 5% and amounted to HRK 2,884 million in comparison with HRK 3,025 million in 2006. Total corporate net indebtedness rose by HRK 895 million.

Balance sheet

As at 31 December 2007, total INA Group assets amounted to HRK 24.9 billion, which is a 12 % increase over the previous year. Immovables, Plant and Equipment rose by 12%, mostly due to investments in development of oil and gas fields (in North Adriatic, Syria and Egypt), investments in refineries and modernisation of the Croatian retail network.

Investments in intangible assets and goodwill increased by 32% and mostly refer to goodwill related to acquisition of Energopetrol in Bosnia and Herzegovina. Investments in associated companies and joint ventures, as well as investments in other companies, rose by HRK 81 million, mostly as a result of the acquisition of a 33.5% share in Energopetrol. The increase of stakes available for sale by HRK 220 million is mostly the result of the increase of market value of Janaf d.d. shares. Deferred tax decreased by HRK 92 million, HRK 40 million of which refers to stakes available for sale.

Inventories increased by 10% to the amount of HRK 3.1 billion, primarily due to effects of increased value of oil reserves (bigger quantities and higher prices), partially corrected for the reduced reserves value of finished products and semi-finished products.

Net trade receivables increased by 21% due to higher refined products prices and amounted to HRK 3.1 billion.

As at 31 December 2007, INA Group's total liabilities increased by 20% over the previous year and amounted to HRK 11.3 billion. The increase of liabilities is the result of increased long-term and short-term loans, which rose to HRK 4.9 billion in comparison with HRK 3.9 billion in 2006. Long-term provisions rose by HRK 220 million to the amount HRK 1.4 billion at year-end, mostly due to higher provisions for decommissioning costs (HRK 127 million) and higher costs of court disputes (HRK 114 million).

The total net debt of INA Group amounted to HRK 4.2 billion in comparison with HRK 3.3 billion at the end of 2006, while net gearing (net debt to net debt plus shareholder's equity including minority interest) increased from 20.55 to 23.5% at the end of 2007.

Profit and loss account

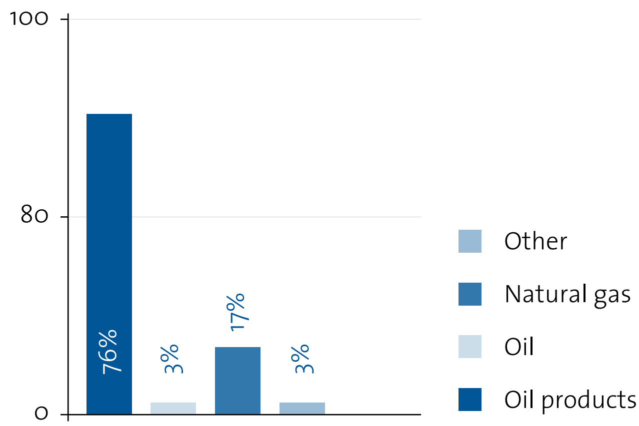
In 2007 total sales revenues of INA Group increased by 10% over 2006 and amounted to HRK 25,848 billion (USD 4,819 million). Domestic sales, making 6.4% of total sales, increased by HRK 1,670 million (11%) due to higher volumes of natural gas sold (15.2%) and higher prices of gas and oil products.

Export sales revenues amounted to HRK 9,381 million (USD 1,749 million) representing a 9% increase over 2006, primarily due to increase in both average sales prices and higher oil export volumes.

In 2007 as well, INA suffered an adverse effect on profit due to regulated prices of natural gas on the domestic market, impeding the full passing on of the gas import price to buyers.

Limiting the charging of the maximum price according to the formula for calculation of oil products retail prices

Total sales structure in 2007.



("price cap" limitation) also had an adverse effect on 2007 results by HRK 260 million.

Total operating expenses increased by HRK 2,309 million (10 %) and amounted to HRK 26,142 million. Costs of raw material, consumables and energy rose in 2007 by 7% over the previous year, where the cost of imported oil is higher by 15% due to 11% more refined volumes and 4% higher average import price. Procurement value of goods sold is 20% higher and amounts to HRK 4.9 billion.

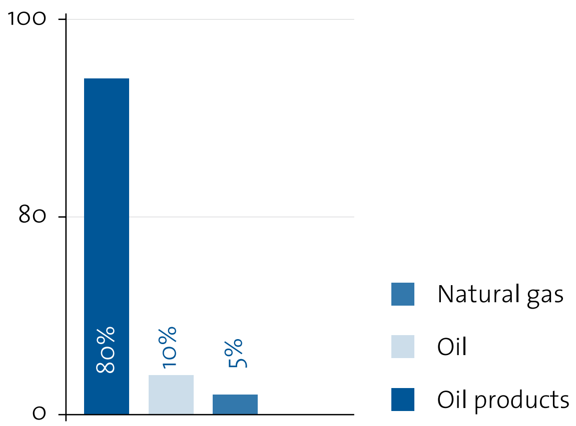
Costs of services decreased by 1% and are at a level of HRK 3.8 billion. Depreciation increased by 35% to the amount of HRK 1.3 billion primarily due to capitalisation of successful exploratory operations and reduction of reserves on the field in production. Corrections and provisions were 10 % lower and amount to HRK 481 billion.

Overall staff costs increased by 8%, including an average pay rise of 8.9%. The number of employees on 31 December 2007 was 15,855, representing a slight decrease against 2006 (15,873).

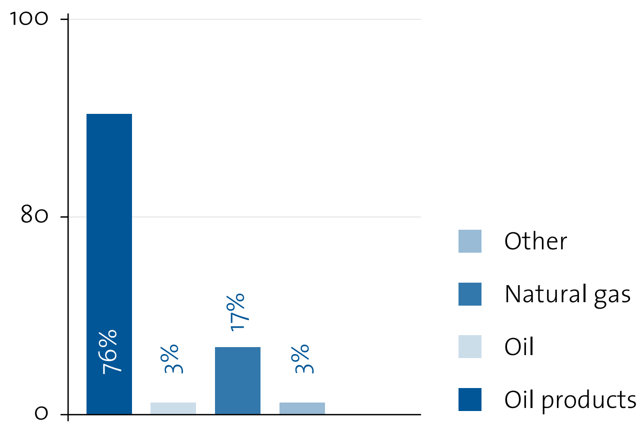
Profit from financial activities in 2007 was HRK 113 million which is 13.7% less than in 2006. The effect of increased positive exchange rate differences in the amount of HRK 165 million was partially offset by HRK 127 higher interest costs, HRK 72 million of which refers to increased interest for long-term loans. In 2007, the cost of interest for loans amounted to HRK 280 million in comparison with HRK 163 million in 2006.

Income tax in 2007 is HRK 41 million higher and amounts to HRK 262, mostly due to higher company revenue and higher prices of gas and oil products.

Export structure for 2007.



Total sales structure in 2007.



Important financial indicators - INA Group

	2006	2007
KEY FINANCIAL DATA		
Total income from sales (in HRK million)	23,434	25,848
EBITDA (in HRK million)	2,474	2,803
Operating profit (in HRK million)	974	1,020
Profit before taxation (in HRK million)	1,105	1,133
Net profit (in HRK million)	883	869
Net cash from operating activities (in HRK million)	1,429	2,416
Total investments in long-term assets (in HRK million)	3,072	2,896
Return on equity (ROE) %	6,9	6,4
Return on capital employed (ROCE) %	6,1	5,7
KEY OPERATING DATA		
Net proven reserves		
- Croatia - onshore (MMboe)	174.3	177.4
- Croatia - offshore (MMboe)	73.0	81.9
- Syria (MMboe)	4.3	3.8
- Africa (MMboe)	9.5	7.3
Total hydrocarbons (MMboe)	**261.1**	**270.4**
AVERAGE DAILY PRODUCTION		
- oil (Mboe/per day)	16.9	17.1
- natural gas condensate (Mboe/per day)	8.5	8.1
- natural gas (Mboe/per day)	32.8	40.1
Total (Mboe/per day)	**58.2**	**65.3**
NUMBER OF PETROL STATIONS		
- Croatia	425	433
- region*	47	49
Total number of petrol stations	**472**	**482**

*excluding those inaccessible

07

Financial report

07

Contents

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

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

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**

	Notes	2007	2006
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**
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
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 consolidated income statement.

INA d.d. 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 Group 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 consolidated income statement.

INA Group Consolidated Balance Sheet

For the year ended 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
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 consolidated income statement.

INA Group Consolidated Balance Sheet

For the year ended 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
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 consolidated income statement.

INA d.d. Unconsolidated Balance Sheet

For the year ended 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 Group 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 consolidated income statement.

INA d.d. Unconsolidated Balance Sheet

For the year ended 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 Group 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 consolidated income statement.

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
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 consolidated income statement.

INA d.d. 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 Group 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 consolidated income statement.

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)**

INA Group Consolidated Cash Flow Statement

For the year ended 31 December 2007 (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
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 consolidated income statement.

INA d.d. Unconsolidated Cash Flow Statement

For the year ended 31 December 2007 (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	**23**	**(2,791)**	**(2,713)**

	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 Group 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 consolidated income statement.

Notes to the financial statements

For the year ended 31 December 2007 (all amounts in HRK millions)

1. General

History and incorporation

The company, INA - Industrija Nafte d.d. Zagreb (INA), also known as INA d.d. (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 OilGas (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 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, Gasacro 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.

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**

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:

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

1. General

- import of natural gas and sale of imported and domestically produced natural gas to industrial consumers and municipal gas distributors;

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

- 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);

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

- 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 d.d. (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.

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

dr.sc.Tomislav Dragičević	President of the Board
László Geszti	Vice-president of the Board - Executive Director Finance Function
dr.sc.prof.Mirko Zelić	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

dr.sc.Tomislav Dragičević	President of the Board
László Geszti	Vice-president of the Board - Executive Director Finance Function
dr.sc.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
Zálan Bács	Member of the Board - Director Corporate Services Function

Darko Markotić, dipl.iur Secretary of INA d.d. in 2006

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 31 st December 2007

dr.sc.Tomislav Dragičević	President of the Board
Zalán Bács	Vice-president of the Board - Executive Director Finance Function
dr.sc.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
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).

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 d.d.)

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 d.d. 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.

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.

2. Accounting policies

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.
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.

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.

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

- 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.

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.

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 uncollectable 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.

2. Accounting policies

Borrowing costs

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

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.

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. 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 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.

2. Accounting policies

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.

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 uncollectable, 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.

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 or 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.

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

2. Accounting policies

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.

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 decommissioning obligations for oil and gas properties

The management makes estimates of future expenditure in connection with environmental protection and decommissioning 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.

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 asset evaluatian is required, 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 are a number of legal actions involving 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).

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

2. Accounting policies

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, lack of equipment and technical problems. These projects, particularly those pertaining to 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.

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 d.d.	
	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 d.d.	
	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 d.d.	
	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**

5. Staff costs

	INA Group		INA d.d.	
	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 d.d.	
	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 d.d.	
	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**

7. Finance costs

	INA Group		INA d.d.	
	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 d.d.	
	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.

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

	INA Group		INA d.d.	
	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 deferred tax expense	**262**	**221**	**210**	**174**

8. Taxation

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**

INA d.d.	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**

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

	INA Group	
Earnings	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**

	INA Group	
Number of shares	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 d.d.
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**

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 d.d.	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**

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**

11. Property, plant and equipment

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
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**
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, plant 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.

b) By asset type

INA d.d.	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
Capitalised 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
Capitalised 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**

11. Property, plant and equipment

b) By asset type

INA d.d.	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
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.

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 OilGas 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 44million charged (IAS 36), which has been included in impairment charges (net) in the years 2007.

12. Goodwill

	INA Group & INA d.d.	
	2007	2006
Investment of Crosco, d.o.o. in Rotary Zrt. 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 d.d.	
	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.

13. Investments in subsidiaries

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 OilGas 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%
*ProGas d.o.o., Zagreb	Production and LPG trading	100%

13. Investments in subsidiaries

Basis of consolidated INA Group financial statements

2007

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. Belgrade, 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. Milano, 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.

14. Investments in associates and joint ventures

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

			INA Group		Ina d.d.	
Name of company	Activity	% shareholding held by INA companies	2007	2006	2007	2006
CroGas 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**

Investment in Energopetrol

On 8 September 2006 INA d.d., 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):

- KM 10.2 million for the Government of the Federation of Bosnia and Herzegovina with respect to recapitalisation rights; and
- 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 d.d.	
	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**

16. Long-term receivables

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

INA d.d.	2007	2006
Amounts receivable for apartments sold	168	180
Long-term receivables from ProGas	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 the 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 principal is presented in the receivable amounts. The amounts do not include the interest portion.

17. Available-for-sale assets

Company available for sale

Name of company	% shareholding held by INA	Activity	2007	2006
Jadranski Naftovod d.d. (JANAF d.d.)	16,00%	Pipeline ownership and operations	610	405
OMV Slovenija d.o.o. Koper	7,75%	Oil trading	31	31
Gasara d.o.o. Pula	49%	Distribution and oil trading	17	
ENERGO METAN SAMOBOR d.o.o. (until December 2007)	33 %	Distribution of gas	-	11
			(2)	(11)
Impairment provision			**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 the 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 GasARA 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.

18. Reserves

	INA Group		INA d.d.	
	2007	2006	2007	2006
Crude oil	637	299	637	299
Gas	109	143	99	131
Commodities	236	307	189	222
Raw material	273	232	180	187
Spare parts and small inventory	416	395	103	142
Unfinished production	628	696	603	604
Finished refinery products	824	766	770	782
	3,123	**2,838**	**2,581**	**2,367**

There is no significant difference between the book value and the cost of reserve replacement for crude oil and refinery products on the balance sheet date between the Company and the Group.

Based on the Act on Oil and Oil Derivatives Market (Official Gazette, No. 57/2006), which changed the manner of calculation of obligatory reserves, the Croatian Government has adopted the Resolution on the Quantity and Structure of Obligatory Reserves of Oil and Oil Derivatives for 2007. Based on this Resolution, the Ministry of Economy, Labour and Entrepreneurship has established that INA d.d.'s share in keeping obligatory reserves for 2007 is defined by quantity (in tons) and by structure for all three derivative groups prescribed by the Act. As of 31 December 2007, INA's obligatory reserves were 112,611 tons of derivatives.

Based on net import realized (import and export difference), INA's obligatory reserves as of 31 December 2006 were 466,173 oil units (20% of the annual net import of the previous year), out of the total of 558,228 oil units reported in stock at the end of the year.

19. Receivables from buyers, net

	INA Group		INA d.d.	
	2007	2006	2007	2006
Receivables from buyers	3,367	2,897	2,287	1,918
Value correction for doubtful debts	(295)	(365)	(195)	(196)
	3,072	**2,532**	**2,092**	**1,722**

Other incomes in 2007 include the amount of 9 million HRK (11 million HRK in 2006), which refers to collected and corrected receivables.

Age structure of maturities for non-corrected receivables from buyers

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

Receivables from buyers in business records are given at fair value, applying the policy of value correction. According to this policy, all mature and uncollected receivables are corrected which have been mature for more than 120 days after their due date.

The exception to the applied policy in 2007 was the receivables from HEP and Croatia Airlines on the basis of the liability which INA d.d. has to the Croatian Compulsory Oil Stocks Agency (Hrvatska agencija za obvezne zalihe nafte i naftnih derivata - HANDA) in the amount of 54 million HRK. As INA d.d.'s repayment obligation will be activated by HANDA's later decision, which will also activate the repayment obligation of HEP and Croatia Airlines to INA d.d. which has not become due yet, these receivables are not considered irrecoverable and therefore the value correction policy does not apply.

	INA Group		INA d.d.	
	2007	2006	2007	2006
Balance at the beginning of the year	365	419	196	239
Additional increase of value correction	31	28	22	15
Written off in the course of the year	(46)	(29)	(14)	(47)
Collected written-off receivables	(55)	(53)	(9)	(11)
Balance at the end of the year	**295**	**365**	**195**	**196**

19. Receivables from buyers, net

Age structure of maturities for non-corrected receivables from buyers

	INA Group		INA d.d.	
	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
More than 366 days	266	319	179	184
	295	**365**	**195**	**196**

20. Other receivables

	INA Group		INA d.d.	
	2007	2006	2007	2006
Overpaid taxes	548	607	483	523
Other receivables	126	113	100	144
	674	**720**	**583**	**667**

21. Other short-term assets

	INA Group		INA d.d.	
	2007	2006	2007	2006
Granted short-term loans and deposits	34	42	20	73
Short-term part of the granted long-term loans	-	-	58	-
Other	16	11	12	11
	50	**53**	**90**	**84**

22. Paid expenses of the future period and accrued income

	INA Group		INA d.d.	
	2007	2006	2007	2006
Advances for customs duties, fees and other expenses	133	176	116	109
Accrued income	36	22	24	66
Other	14	41	11	33
	183	**239**	**151**	**208**

23. Money and money equivalents

Money and money equivalents include the Group's funds and short-term deposits with banks. Book value of these items is equivalent to their fair values.

	INA Group		INA d.d.	
	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 financial assets consists of money and balances on bank accounts, receivables from buyers and other receivables, and investments.

Credit risk for liquid funds is limited because the other party is most often a bank which has received a high credit rating from international agencies. The Group's credit risk is mostly related to receivables from buyers. The amounts of these receivables are given in the balance sheet, with subtracted value correction for doubtful and contested claims.

The Group does not have a significant credit risk concentration, since it has dispersed its exposure to a number of parties and clients.

24. Liabilities by bank loans, overdrafts and the current part of liabilities by long-term loans

	INA Group		INA d.d.	
	2007	2006	2007	2006
Loans and current account overdrafts	1,664	1,935	97	159
Short-term part of the long-term loans (note 27)	129	578	45	506
	1,793	**2,513**	**142**	**665**

	Maturity date	Insurance/guarantee	2007	2006
BNP Paribas (USD)	by 31 May 2008	INA d.d. guarantee	455	461
Nova Ljubljanska banka, Ljubljana (SIT)	by 3 June 2008	-	6	4
Natexis Bank (USD)	by 31 Dec 2008	INA d.d. guarantee	-	59
Bank Tokyo Mitsubishi (USD)	by 14 Sept 2008	INA d.d. guarantee	175	230
Probanka d.d. (SIT)	by 18 March 2007	-	-	1
Raiffeisenbank Zagreb (EUR, USD i HRK)	by 28 Feb 2008	-	29	37
Bank Austria Creditanstalt (USD)	by 20 June 2008	-	-	325
Zagrebačka banka, Zagreb (EUR, USD,HRK)	by 30 June 2008	-	22	-
Privredna banka Zagreb, Zagreb (HRK)	by 30 Sept 2008	-	57	31
Societe - Generale, Splitska banka (USD, HRK)	by 30 Sept 2008	-	35	57
Slavonska banka Osijek	by 10 Oct 2008	-	18	21
Fortis (USD)	by 17 Oct 2008	INA d.d. guarantee	476	244
Citibank Int. (USD)	by 3 July 2008	-	259	306
OTP bank NYRT (HUF)	by 31 March 2008	-	35	-
Short-term part of long-term loans (note 27)			84	72
INA d.d.				
Short-term loans and overdrafts			97	159
Short-term part of long-term loans (note 27)			45	506
Total INA d.d.			**142**	**665**
Total INA Group			**1,793**	**2,513**

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. Liabilities to suppliers, taxes and contributions and other short-term liabilities

	INA Group		INA d.d.	
	2007	2006	2007	2006
Liabilities to suppliers	3,532	2,900	1,876	1,935
Value-added tax, excise tax and other taxes	569	478	486	432
Contributions, tax from and on salaries and surtax	79	71	49	47
Salaries and other	269	264	86	146
	4,449	**3,713**	**2,497**	**2,560**

According to the Management Board's opinion, the stated amounts of short-term liabilities are approximate to their fair values.

26. Delayed payment of income and expenditure of the future period

	INA Group		INA d.d.	
	2007	2006	2007	2006
Included interest on long-term loans	37	22	33	35
Charged expenses	120	98	45	36
Other	41	37	19	44
	198	**157**	**97**	**115**

27. Long-term loans

Long-term loans have been arranged in several foreign currencies and are subject to different interest rates. The greater part of loans received is insured by bills of exchange deposited with Croatian banks. The Group's outstanding loans as at 31 December 2007 are as follows.

	Loan description	Loan currency	2007	2006
PBZ-API 8003	Loan	USD	2	2
Erste & Steiermarkische bank	Loan - purchase of equipment	USD and EUR	19	28
Viktor Lenac	Loan - purchase of equipment	different currencies	-	4
Environmental protectionEUR121157Jugobanka	Loan - purchase of equipment	JPY	-	14
EBRD	Environmental	EUR	121	157
Mizuho/PBZEBRD	Syndicated loan	USD	-	1,673
Bayerische Landesbank	Syndicated loan	USD	2,891	-
			3,033	**1,878**
Part which becomes due within 1 year			(45)	(506)
INA d.d. total long-term loans Part which becomes due within 1 year			**2,988**	**1,372**
Group's other long-term loans			226	125
Part which becomes due within 1 year			(84)	(72)
INA Group's total long-term loans			**3,130**	**1,425**

	Average weighted interest rate	Average weighted interest rate		
INA Group	2007	2006	2007	2006
	%	%		
Bank loans in USD	5.26	6.25	3,097	1,804
Bank loans in EUR	5.31	6.29	162	177
Bank loans in JPY	-	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**
Part which becomes due within 1 year			(129)	(578)
INA Group's total long-term loans			**3,130**	**1,425**

INA d.d.	Average weighted interest rate 2007	Average weighted interest rate 2006	2007	2006
	%	%		
Bank loans in USD	5.10	5.31	2,897	1,688
Bank loans in EUR	5.24	5.07	136	175
Bank loans in JPY	-	5.17	-	14
Bank loans in DKK	-	3.25	-	1
Total			**3,033**	**1,878**
Part which becomes due within 1 year			(45)	(506)
INA d.d. total long-term loans			**2,988**	**1,372**

These loans will become mature as follows:

	INA Group		INA d.d.	
	2007	2006	2007	2006
Short-term part of long-term loans	129	578	45	506
Maturity from one to two years	51	974	44	938
Maturity from two to three years	157	383	35	381
Maturity from three to four years	20	37	17	35
Maturity from four to five years	2,895	20	2,892	18
Maturity over five years	7	11	-	-
Total	**3,259**	**2,003**	**3,033**	**1,878**

27. Long-term loans

Changes to long-term loans throughout the year can be reduced to the following:

	INA Group	INA d.d.
31 December 2005	**1,224**	**972**
New loans	1,375	1,375
Repayments	(454)	(346)
Negative exchange rate differences	(142)	(123)
31 December 2006	**2,003**	**1,878**
Payment within 1 year (including bank loans and overdrafts - note 24)	(578)	(506)
Payment after more than 1 year	1,425	1,372
31 December 2006	**2,003**	**1,878**
New loans*	3,873	3,695
Repayments	(2,302)	(2,231)
Negative exchange rate differences	(315)	(309)
31 December 2007	**3,259**	**3,033**
Payment within 1 year (including bank loans and overdrafts - note 24)	(84)	(45)
Payment after more than 1 year	3,175	2,988

*INA Group's new loans amount to 3,873 million HRK, of which 173 million HRK have been transferred by the purchase of the company Rotary Zrt

Outstanding long-term loans as at 31 December 2007, as well as newly withdrawn and repaid loans during 2007 can be summarized as follows:

Privredna banka Zagreb

The Company's remaining long-term liability to Privredna banka is 2 million HRK, and relates to the Contract on Refinanced Bills of Exchange Based on the Bond Issue - API. The debt is in grace period and will be refinanced.

Erste & Steiermaerkische Bank and Viktor Lenac

Loans from Erste & Steiermarkische bank and Viktor Lenac were intended for financing import equipment necessary for construction and delivery of the LABIN platform. The balance of outstanding debt as at 31 December 2007 is 19 million HRK, and 31.5 million HRK (in USD, EUR) as at 31 December 2006. The interest becomes due on 31 January and 31 July every year at different contracted interest rates.

EBRD

In 2001, the Company concluded a long-term loan contract with EBRD, for the amount of 36 million EUR for financing environmental projects at INA d.d. The loan use term was 31 December 2005, by which date 31.7 million EUR had been used. It was decided that the use period would not be extended. The repayment of the loan was contracted as 12 semiannual installments, and the due date of the last installment is 30 March 2011, with the 6 month EURIBOR + 1 percentage point interest rate. The loan balance as at 31 December 2006 was 21.3 million EUR, or 156.6 million HRK.

Bayerische Landesbank

In 2007, the Company concluded a new loan contract with Bayerische Landesbank in the amount of 1 billion USD. The loan was intended for financing business activities of INA d.d., primarily for early repayment of the previously contracted syndicated loan in the amount of 400 million USD, and for modernizing refineries. The loan was contracted with a 5-year expiry term, with USLIBOR interest rate, increased by the spread of 0.25-0.40% annually. From the contracted amount, 580 million USD have been withdrawn during 2007. The loan balance as at 31 December 2007 was 2.9 billion HRK.

Non-compliance with the credit arrangement

During 2007, INA d.d. and INA Group have made timely repayment of all the liabilities on the basis of received credits (principal, interest, fees), and there were no delays or defaults on this basis.

28. Other long-term liabilities

	INA Group		INA d.d.	
	2007	2006	2007	2006
Liabilities to the state for apartments sold	93	100	93	100
Included income for apartments sold	51	53	51	53
	144	**153**	**144**	**153**

Long-term liabilities to the state refer to the sale of apartments to employees and former employees in accordance with the state program (note 16). According to legal regulations, 65% of the income from apartment sales is to be paid to the state upon the receipt of funds. According to the law, the Company has no liability to deliver the funds before collection.

29. Provisions

INA Group	Provisions for abandoning production fields	Tax liabilities	Legal disputes	ENI project costs	Incentives	Tax receivables from Holdina, Sarajevo	Other	Total
31 Dec 2005	**1,304**	**193**	**141**	**93**	**68**	**53**	**56**	**1,908**
Annual cost	82	-	25	34	24	2	-	167
Effects of changes in evaluation, capitalized	(400)	-	-	-	-	-	-	(400)
Use of provisions throughout the year	(44)	(193)	(3)	(12)	(37)	-	(25)	(314)
31 Dec 2006	**942**	**-**	**163**	**115**	**55**	**55**	**31**	**1,361**
Annual cost	89	-	124	7	4	-	49	273
Effects of changes in evaluation, capitalized	76	-	-	-	-	-	-	76
Use of provisions throughout the year	(38)	-	(10)	(115)	(42)	-	(52)	(257)
31 Dec 2007	**1,069**	**-**	**277**	**7**	**17**	**55**	**28**	**1,453**

INA d.d.	Decommission Charges	Tax authority claims	Legal claims	ENI project claims	Redundancy costs	Other	Total
31 Dec 2005	**1,304**	**193**	**141**	**93**	**60**	**22**	**1,813**
Annual cost	82	-	25	34	-	1	142
Effects of changes in evaluation, capitalized	(400)	-	-	-	-	-	(400)
Use of provisions throughout the year	(44)	(193)	(3)	(12)	(37)	-	(289)
31 Dec 2006	**942**	**-**	**163**	**115**	**23**	**23**	**1,266**
Annual cost	89	-	84	7	12	9	201
Effects of changes in evaluation, capitalized	76	-	-	-	-	-	76
Use of provisions throughout the year	(38)	-	(4)	(115)	(23)	(7)	(187)
31 Dec 2007	**1,069**	**-**	**243**	**7**	**12**	**25**	**1,356**

	INA Group		INA d.d.	
	2007	2006	2007	2006
By term of payment				
Long-term liabilities	47	175	25	143
Short-term liabilities	1,406	1,186	1,331	1,122
	1,453	**1,361**	**1,356**	**1,265**

Costs of closing down plant

Provisions for the costs of closing down plant relate to abandoning production on oil and natural gas fields. The initial recognition of provisions is accepted as the cost of real estate, plant and equipment. Subsequent changes to the amount of provisions arising from the changes in the estimate of costs of abandonment, provisions and production of oil and natural gas, non-risk interest rate as discount rates and inflation rates, are also considered changes to the costs of real estate, plant and equipment and therefore have an effect on the profit and loss account through future depreciation. As at 31 December 2007, the Company has recognized the provisions for abandoning 51 fields..

Legal disputes

The Company has realized provisions by legal disputes, of which the most significant are the following:

GWDF Partnership München and GWDF Limited Cyprus

GWDF Partnership München and GWDF Limited Cyprus have filed a lawsuit against INA d.d. Zagreb and INA-Naftaplin International Exploration, Channel Islands, and the value of the lawsuit is 58 million HRK. The basis of the lawsuit is the respondent's responsibility for the damage which the claimant has incurred due to unjustified interruption of negotiations which resulted in the failure to sign the contract on the transfer of the business stake between GWDF Limited Cyprus and INA-Naftaplin International Exploration. INA d.d. sent a response to the lawsuit in September 2007, in which it fully contests both the basis and the amount of the claim raised, stating, among else, that the respondents resigned from the negotiations due to a business decision and that it was the claimant that participated in the negotiations disregarding the principles of conscientiousness and fairness.

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

The value of the dispute between "Veronika" d.o.o. Zagreb and INA d.d. is 40 million HRK (it was 44 million HRK, but the claimant partially reduced the claim in 2007, i.e. partially withdrew the claim). The claimant raised the claim for the compensation of damage, arising from the interruption of delivery of gas, due to the freezing of plantations in greenhouses. The Commercial Court has already passed two rulings in favor of the claimant in the full amount. The Higher Commercial Court has overturned the ruling of the Commercial Court in Zagreb and returned the case for retrial. In 2007, the Commercial Court in Zagreb passed a ruling by which it approved the claimant's claim in the amount of 40 million HRK. Appeal was filed against the ruling and the decision of the Higher Commercial Court is pending.

Uljanik Pula

In INA d.d.'s business records, 23 million HRK have been reserved for the legal dispute with Uljanik, Pula, on the basis of the dispute with three claimants, namely:

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

The claimants have raised the claim for the compensation of incurred damage as they suffered damage to the production process, caused by INA, due to unjustified interruption in the delivery of gas from 18 December 1996 to 21 February 1997. Uljanik Brodogradilište d.d. demands the compensation of damage as penalties for the delay in the delivery of ships, lost funds due to unpaid advance from the buyer (credit cost), unrealized production, and

29. Provisions

payment to employees due to delays. Uljanik Strojogradnja d.d. demands the compensation of damage from the increase of rejects and payment to employees due to delays, while Uljanik Tesu d.d. demands the compensation of damage from the payment to employees due to delays.

It is difficult to anticipate the outcome of the dispute, as the first-instance proceedings, namely presentation of evidence regarding the validity of the claim, are in progress, while the evidence proposals regarding the degree of damage incurred, although proposed by the claimant, have not yet been processed. In these proceedings, a first-instance ruling has not been made, over which one of the parties will certainly appeal to the Higher Commercial Court.

During the proceedings, since receiving the file through the attorney's office as its legal proxy, the respondent INA d.d. has submitted a number of objections through its legal service. Currently, evidence is being produced regarding the validity of the claim, and claimants have not yet proven that INA was in business relationship with them regarding the delivery of gas, or that this is raised as an objection

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

The value of the dispute between "Mimal" d.o.o., Zagreb, and INA d.d. is 20 million HRK. On 31 August 2005, the claimant Mimal 94 raised a claim against INA d.d. before the Commercial Court in Zagreb, concerning the delivery of 2,000 tons of oil and 1,000 tons of fertilizer KAN 27%, or 2,700 tons of oil, or that the respondent should pay the counter-value of the above quantity of oil, according to the price on the day when the first-instance ruling was passed, together with default interest accrued since the date of raising the claim until payment. Furthermore, the claimant demands the payment of a fee for using the paid funds in the period from the date of payment until the date of raising the claim, according to the rate charged by Privredna banka Zagreb from the respondent, for using the current assets in this period.

So far, several hearings have been held, and the respondent has, among other things, raised the passive legitimation objection and the statute of limitations objection. So far, no first-instance ruling has been passed.

"Katran" d.d., Zagreb

The value of the dispute with the company "Katran" d.d., Zagreb, is 14 million HRK. The claimants have raised a claim for the compensation of damage on the basis of goods sale contract - for the sale of bitumen according to the specification which is the subject of the contract, and according to the claimants' allegations the respondent unilaterally charged for the goods at a price considerably higher than the price under the contract, and demanded an advance payment before the delivery of goods. The dispute is expected to take one year, namely after the court expert, who will present the finding, has been heard.

According to the expert's finding, the claimant overpaid an amount of 3 million HRK for the bitumen procured from the supplier "MGP", since they purchased the bitumen at prices higher than the ones calculated by the respondent, and it is therefore presumed that the court might rule in the favor of the claimant in this respect.

City of Sisak

As a claimant, the City of Sisak demands compensation for damage incurred due to harmful emissions and the prevention of excessive spread of these emissions. The value of the dispute is 11 million HRK. The procedure is in its initial stage. It can be expected that, after the decision of the court of local jurisdiction, the claimant will specify the claim and statement of claim in the further procedure, and it will therefore be possible to give a more precise assessment of the legal position of parties in the dispute.

ENI tax

On 27 February 1996, INA signed the Production Division Contract with Agip Croatia B.V. (currently ENI Croatia B.V.). According to Article 15.2 of the Contract, INA assumed the obligation to calculate and pay on behalf of Agip all the taxes in Croatia payable on income or profit which AGIP gained through oil works on the basis of the Production Division Contract, and which are defined by the existing and future laws of the Republic of Croatia, including staff income tax.

On 8 November 2005, the contracting parties signed the Annex No.5 to the Production Division Contract (Ugovor o podjeli proizvodnje - UPP) on the Ivana oil field, and the Annex No. 5 of UPP for the contract area Aiza Laura.

Annexes No. 5 contain the Procedure for the Calculation of the Profit Tax, which defines:

- The method of calculation and payment of ENI's part of the tax on profit gained from activities which are the subject of the Production Division Contract, the obligations assumed and fulfilled and paid by INA, and
- Calculation and payment of compensation for deduction.

In 2005, the 2003 and 2004 tax obligations were settled following the 2005 decision according to which the total tax obligation was 111 million HRK.

In 2006, the 2005 tax obligation in the amount of 93 million HRK was settled, and for 2006, the tax obligation was calculated in the amount of 189 million HRK. Of the calculated 2006 tax obligation, 75 million HRK was settled. The outstanding remaining part of the 2006 tax obligation was paid upon the final calculation in 2007. For 2007, the tax obligation by ENI was calculated in the amount of 81 million HRK. The overpaid amount of 57 million HRK will be used for advance payments in 2008.

Tax obligations of dependent companies of INA d.d in Bosnia and Herzegovina

By the final decision of the Tax Administration of the Sarajevo Cantonal Bureau, the dependent company INA BH d.o.o. Sarajevo was exempt from the obligation to pay tax under previous temporary decision of the Tax Administration. The dependent company HOLDINA d.o.o. Sarajevo reserved the tax risk liability in its business books.

30. Compensations for retirement and other compensations to employees

Defined income plan

In accordance with the collective agreement, the Group must pay employee anniversary awards, severance payments and other compensations to its employees. The Group has defined income plans for employees who meet specified criteria. Plans prescribe retirement severance payments for employees, in the net amount of 8,000 HRK, if the employees use incentive severance pay. In the case that employees take regular retirement (without incentive severance pay), they are paid 16,000 HRK net amount, of which 8,000 HRK is taxable. There are no other types of income after retirement. Employee anniversary awards are paid according to the Collective Agreement in the following amounts and according to the following years of employment with the Group:

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

The above net amounts also contain a taxable part on the basis of which all corresponding taxes and contributions are calculated and paid.

For the Group's employees in the Republic of Croatia, legal contributions for pension insurance are paid by the Group's related companies. These contributions form the basis for pensions paid by the Croatian Pension Fund to Croatian employees after they retire.

Actuarial evaluation of the current value of liabilities based on defined incomes has been made by actuaries from the company I.A.C.T.A. Actuarial Consulting Ltd. on 31 December 2007. In 2007, the Company reserved 52 million HRK for employee anniversary awards, and 21 million HRK for regular severance pays.

The current value of liabilities based on defined incomes, the related costs of current and past work were determined by the projected credit unit method.

30. Retirement and other employee benefit schemes

INA Group	2007	2006
Key assumptions:	2007	2006
Discount rate	5.00%	5.00%
Fluctuation rate	2.50%	2.50%
Mortality	HR 2004 70,00%	HR 2004 70,00%
Average expected remaining employment (in years)	18	16

Amount recognized in the profit and loss account on the basis of the defined income plan:

	INA d.d.	
	2007	2006
Current work cost	4	3
Interest cost	3	2
Net actuarial profit (loss) of the financial year	14	(5)
	21	**-**

Amount given in the balance sheet based on the Group's liabilities on the basis of the defined severance payments and anniversary retirement awards:

	INA Group		INA d.d.	
	2007	2006	2007	2006
Current value of liabilities on the basis of defined income	106	80	73	53
Liability stated in the balance sheet	**106**	**80**	**73**	**53**

	INA Group		INA d.d.	
	2007	2006	2007	2006
By term of payment				
Long-term liabilities	15	8	8	5
Short-term 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 d.d.	
	2007	2006
As at 31 January	53	53
Current work cost	4	3
Interest costs	3	2
Actuarial profits and losses	21	1
Income paid	(8)	(6)
As at 31 December	**73**	**53**

31. Subscribed and paid-in capital

	INA Group & INA d.d.	
	2007	2006
Issued and paid:		
10 million shares (value of each share is 900 HRK)	**9,000**	**9,000**

The Company's stock capital, originally stated in German marks (DEM), was converted to HRK upon registration in April 1995.

Regarding the decision of the Commercial Court in October 2001, the Company's stock capital was corrected to 9,000 million HRK. The entry correction was recorded through the transfer from other reserves.

The Company's stock capital consists of 10 million approved and issued shares with the nominal value of 900 HRK. A share earns the right to one vote and the right to dividend.

32. Revaluation reserves

	INA Group & INA d.d.	
	2007	2006
Initial balance	66	(96)
Increase occurring on the basis of revaluation of financial assets available for sale (Janaf)	206	179
Decrease occurring on the basis of revaluation of financial assets available for sale (Plinara Pula)	(2)	-
Corresponding delayed tax	(41)	(17)
Final balance	**229**	**66**

33. Other reserves

The Group's reserves refer to accumulated surpluses and deficits, revaluation of real estate, plant and equipment, and positive and negative exchange rate differences occurring up to 1993. For several years, the Croatian economy was affected by hyperinflation, and before 31 December 1993 neither the Company nor the Group were subjects of auditing. For these reasons, it was not possible to break down the Company and the Group's reserves as at 31 December 1993.

For the periods after 1993, the results of the Group's transactions, if they affect the reserves, were stated in the corresponding reserve accounts. The Group's reserves as at 31 December 1993 were aggregated on that day, and stated separately in this note.

Changes to reserves throughout the years were as follows:

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

INA d.d.	Combined reserves at 31 December 1993	Other reserves	Total
31 December 2006	1,667	285	1,952
31 December 2007	1,667	285	1,952

34. Retained earnings

	INA Group	INA d.d.
	Retained profit/ (accumulated loss)	Retained profit/ (accumulated loss)
31 December 2005	**483**	**(119)**
Financial year profit	883	670
31 December 2006	**1,366**	**551**
Paid dividends	(131)	(131)
Financial year profit	869	990
31 December 2007	**2,104**	**1,410**

35. Minority owners' stakes in the result of dependent companies

	INA Group	
	2007	2006
Balance at the beginning of the year	7	6
Stakes in the profits of the current year	2	1
Balance at the end of the year	**9**	**7**

36. Segment analysis

By business segments

INA Group	Research and production of oil and gas	Refineries and marketing	Trade	Business functions and other	Eliminations	Total
2007						
Income from sale to external buyers	5,907	14,040	5,792	109	-	25,848
Intersegmental sales	2,226	4,724	58	575	(7,583)	-
Total income:	**8,133**	**18,764**	**5,850**	**684**	**(7,583)**	**25,848**
Basic activity expenditure, other net income from basic activity	(6,088)	(18,705)	(5,940)	(1,678)	7,583	(24,828)
Basic activity profit/(loss)	**2,045**	**59**	**(90)**	**(994)**	**-**	**1,020**
Financial activity profit						113
Regular activity profit before tax						1,133
Current year tax expenditure						(262)
Current period profit						**871**
2006						
Income from sale to external buyers	4,247	13,523	5,595	69	-	23,434
Intersegmental sales	2,547	4,613	74	621	(7,855)	-
Total income:	**6,794**	**18,136**	**5,669**	**690**	**(7,855)**	**23,434**
Basic activity expenditure, other net income from basic activity	(5,171)	(17,966)	(5,636)	(1,542)	7,855	(22,460)
Basic activity profit/(loss)	**1,623**	**170**	**33**	**(852)**	**-**	**974**
Financial activity profit						131
Regular activity profit before tax						1,105
Current year tax expenditure						(221)
Current period profit						**884**

By business segments

INA d.d.	Research and production of oil and gas	Refineries and marketing	Trade	Business functions and other	Eliminations	Total
2007						
Income from sale to external buyers	5,012	11,803	5,793	43	-	22,651
Intersegmental sales	1,912	4,673	15	2	(6,602)	-
Total income:	**6,924**	**16,476**	**5,808**	**45**	**(6,602)**	**22,651**
Basic activity expenditure, other net income from basic activity	(4,742)	(16,461)	(5,900)	(1,057)	6,602	(21,558)
Basic activity profit/(loss)	**2,182**	**15**	**(92)**	**(1,012)**	**-**	**1,093**
Financial activity profit						107
Regular activity profit before tax						1,200
Current year tax expenditure						(210)
Current period profit						**990**
2006						
Income from sale to external buyers	4,282	11,407	5,611	26	-	21,326
Intersegmental sales	2,271	4,557	14	-	(6,842)	-
Total income:	**6,553**	**15,964**	**5,625**	**26**	**(6,842)**	**21,326**
Basic activity expenditure, other net income from basic activity	(5,034)	(15,877)	(5,590)	(921)	6,842	(20,580)
Basic activity profit/(loss)	1,519	87	35	(895)	-	746
Financial activity profit						98
Regular activity profit before tax						844
Current year tax expenditure						(174)
Current period profit						**670**

36. Segment analysis

By business segments

INA Group	Research and production of oil and gas	Refineries and marketing	Trade	Business functions and other	Eliminations	Total
2007 Assets and liabilities						
Real estate, plant and equipment	8,964	4,184	999	744	-	14,891
Intangible assets	356	12	13	280	-	661
Investments in associated companies and joint investments	57	67	-	-	-	124
Supplies	632	2,385	58	48	-	3,123
Receivables from buyers, net	1,139	1,691	316	449	(523)	3,072
Undistributed assets						3,045
Total assets						**24,916**
Liabilities to suppliers	1,290	2,088	171	508	(525)	3,532
Undistributed liabilities						7,741
Total liabilities						**11,273**
Other segmental information						
Capital expenditure	**1,559**	**985**	**212**	**140**	**-**	**2,896**
Real estate, plant and equipment	1,364	978	211	69	-	2,622
Intangible assets	195	7	1	71	-	274
Depreciation and asset reduction	860	238	95	155	-	1,348
Of which: losses from reduction which affected profit or loss	33	-	13	-	-	46

By business segments

INA Group	Research and production of oil and gas	Refineries and marketing	Trade	Business functions and other	Eliminations	Total
2006 **Assets and liabilities**						
Real estate, plant and equipment	8,219	3,459	891	743	-	13,312
Intangible assets	384	25	2	274	-	685
Investments in associated companies and joint investments	57	-	-	-	-	57
Supplies	642	2,091	47	58	-	2,838
Receivables from buyers, net	988	4,057	306	437	(3,256)	2,532
Undistributed assets						2,764
Total assets						**22,188**
Liabilities to suppliers	816	5,087	149	493	(3,645)	2,900
Undistributed liabilities						6,502
Total liabilities						**9,402**
Other segmental information						
Capital expenditure	**1,747**	**850**	**117**	**382**	**(24)**	**3,072**
Real estate, plant and equipment	1,544	830	117	212	(24)	2,679
Intangible assets	203	20	-	170	-	393
Depreciation and asset reduction	611	193	82	78	-	964
Of which: losses from reduction which affected profit or loss	(16)	-	-	-	-	(16)

36. Segment analysis

By business segments

INA d.d.	Research and production of oil and gas	Refineries and marketing	Trade	Business functions and other	Eliminations	Total
2007 Assets and liabilities						
Real estate, plant and equipment	7,605	3,673	995	350	-	12,623
Intangible assets	359	8	13	275	-	655
Investments in dependent companies	648	354	-	284	-	1,286
Investments in associated companies and joint investments	57	132	-	-	-	189
Supplies	448	2,069	61	3	-	2,581
Receivables from buyers, net	895	1,595	313	(5)	(706)	2,092
Undistributed assets						3,558
Total assets						**22,984**
Liabilities to suppliers	948	3,494	149	380	(3,095)	1,876
Undistributed liabilities						8,517
Total liabilities						**10,393**
Other segmental information						
Capital expenditure	**1,115**	**869**	**212**	**66**	**-**	**2,262**
Real estate, plant and equipment	924	863	211	(3)	-	1,995
Intangible assets	191	6	1	69	-	267
Depreciation and asset reduction	725	203	94	115	-	1,137
Of which: losses from reduction which affected profit or loss	33	-	13	-	-	46

By business segments

INA d.d.	Research and production of oil and gas	Refineries and marketing	Trade	Business functions and other	Eliminations	Total
2006 **Assets and liabilities**						
Real estate, plant and equipment	7,181	2,996	887	401	-	11,465
Intangible assets	387	20	2	269	-	678
Investments in dependent companies	373	321	-	284	-	978
Investments in associated companies and joint investments	57	-	-	-	-	57
Supplies	490	1,829	48	-	-	2,367
Receivables from buyers, net	709	1,262	311	12	(572)	1,722
Undistributed assets						3,026
Total assets						**20,293**
Liabilities to suppliers	647	3,482	140	207	(1,935)	2,541
Undistributed liabilities						6,183
Total liabilities						**8,724**
Other segmental information						
Capital expenditure	**1,533**	**773**	**116**	**299**	**-**	**2,721**
Real estate, plant and equipment	1,330	755	116	130	-	2,331
Intangible assets	203	18	-	169	-	390
Depreciation and asset reduction	475	165	76	47	-	763
Of which: losses from reduction which affected profit or loss	(16)	-	-	-	-	(16)

36. Segment analysis

By geographical areas

INA Group	Republic of Croatia	Middle East and Africa	Rest of the world	Total
2007				
Real estate, plant and equipment	12,022	2,361	508	14,891
Intangible assets	378	262	21	661
Investments in associated companies and joint investments	57	-	67	124
Supplies	3,060	-	63	3,123
Receivables from buyers, net	2,288	179	605	3,072
Undistributed assets				3,045
Total assets				**24,916**
Other segmental information				
Capital expenditure	**2,321**	**548**	**27**	**2,896**
Real estate, plant and equipment	2,226	379	17	2,622
Intangible assets	95	169	10	274

INA Group	Republic of Croatia	Middle East and Africa	Rest of the world	Total
2006				
Real estate, plant and equipment	11,037	1,986	289	13,312
Intangible assets	414	263	8	685
Investments in associated companies and joint investments	57	-	-	57
Supplies	2,790	-	48	2,838
Receivables from buyers, net	1,898	114	520	2,532
Undistributed assets				2,764
Total assets				**22,188**
Other segmental information				
Capital expenditure	**2,465**	**571**	**36**	**3,072**
Real estate, plant and equipment	2,159	496	24	2,679
Intangible assets	306	75	12	393

By geographical areas

INA d.d.	Republic of Croatia	Middle East and Africa	Rest of the world	Total
2007				
Real estate, plant and equipment	10,633	1,888	102	12,623
Intangible assets	372	262	21	655
Investments in dependent companies	1,175	-	111	1,286
Investments in associated companies and joint investments	57	-	132	189
Supplies	2,581	-	-	2,581
Receivables from buyers, net	1,614	178	300	2,092
Undistributed assets				3,558
Total assets				**22,984**
Other segmental information				
Capital expenditure	**1,768**	**482**	**12**	**2,262**
Real estate, plant and equipment	1,679	313	3	1,995
Intangible assets	89	169	9	267

INA d.d.	Republic of Croatia	Middle East and Africa	Rest of the world	Total
2006				
Real estate, plant and equipment	9,845	1,509	111	11,465
Intangible assets	403	263	12	678
Investments in dependent companies	901	-	77	978
Investments in associated companies and joint investments	57	-	-	57
Supplies	2,367	-	-	2,367
Receivables from buyers, net	1,374	114	234	1,722
Undistributed assets				3,026
Total assets				**20,293**
Other segmental information				
Capital expenditure	**2,215**	**470**	**36**	**2,721**
Real estate, plant and equipment	1,912	395	24	2,331
Intangible assets	303	75	12	390

37. Business relations with associated parties

The Company has a dominant position in the Republic of Croatia in the exploration and production of oil and gas, oil processing and sale of gas and oil products. Due to INA's strategic position in the Croatian economy, a significant part of its operations and its dependent companies' operations are business transactions with the Government of the Republic of Croatia, its ministries and agencies, as well as companies in majority ownership of the Republic of Croatia.

Transactions between INA d.d. and its dependent companies as associated parties have been eliminated on consolidation. Transactions between INA d.d. and other companies within the Group and other associated parties are shown below.

Sale and purchase transactions

Transactions between INA d.d. and associated parties throughout the year:

	Income from sale of goods and services		Costs from the relations with associated parties	
INA d.d.	2007	2006	2007	2006
BUSINESS PARTNERS				
Associated companies abroad				
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
Associated companies in Croatia				
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

INA d.d.	Income from sale of goods and services 2007	Income from sale of goods and services 2006	Costs from the relations with associated parties 2007	Costs from the relations with associated parties 2006
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

37. Business relations with associated parties

Sale and purchase transactions

Transactions between INA d.d. and associated parties throughout the year:

	Receivables from associated parties		Liabilities to associated parties	
INA d.d.	2007	2006	2007	2006
BUSINESS PARTNERS				
Associated companies abroad				
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
Associated companies in Croatia				
Crosco Grupa	4	4	103	105
Osijek Petrol d.d.	134	112	1	6
Crobenz d.d. Zagreb	162	99	2	2
ProGas 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	-	-
Gasacro	1	14	38	18
Željezara Sisak	4	-	-	1

Income from the sale of products to associated parties was realized at the Group's usual prices, reduced by different discounts and rebates, depending on the relations between parties.

For sale of oil products to associated parties, INA d.d usually demands collection insurance instruments depending on the risk of placement of goods, except for budget buyers or buyers which are 100% owned by the state.
Liabilities of associated parties to INA d.d. are stated with the reduction by the value correction for doubtful and contested debts.

Compensations to crucial management staff

Compensations paid to directors and other crucial managers throughout the year:

	INA d.d.	INA d.d.
	2007	2006
Short-term income	38	38
Severance pays	1	1
Total	**39**	**39**

The presented compensation amount includes the incomes of the president of the Management Board, members of the Management Board and executive managers of the business divisions and business functions, sector directors, advisors to the president of the Management Board and the assistants to the executive managers.

Based on the signed statements, related to requests from associated parties, the employees of INA d.d. (44 workers) have signed statements that members of the immediate families of the crucial members of INA d.d.'s management have no stakes in INA d.d. which would give them significant influence or control of the entity, both in 2007 and in 2006.

Other transactions with associated parties

The Company is the principal user of the services of the company Crosco Naftni servisi d.o.o. and its dependent companies. The Crosco Group, which is fully owned by the Company (note 13), has stated a consolidated income of 1,625 million HRK in 2007 (1,389 million HRK in 2006), of which 379 million HRK (472 million HRK in 2006) refers to income from sales, mostly of technological services, directly to INA d.d.

The Company is also the principal user of the services of the dependent companies STSI d.o.o. and Maziva Zagreb d.o.o., which were founded in 2002, and the company Sinaco d.o.o. which was founded in 2003 (note 13).

The Company is also the principal user of the services of the associated company JANAF d.d., in which the Company holds 16.00% equity (note 17). Approximately 52 million HRK of income of the company JANAF d.d. out of the total income amount of 360 million HRK in 2007 refers to the income from INA d.d. for using the JANAF d.d. oil pipeline system (in 2006: 49 million HRK of 342 million HRK total income).

38. Contractual obligations

The Company and the group have certain permanent business and financial obligations, which are a part of the regular business operations, and include:

- investments in refineries for the purpose of meeting the latest standards for fuels;
- exploration work on wells abroad;
- research and development obligations resulting from the joint production contract;
- obligations to procure imported gas from Russia as a supplement to domestic gas production in order to meet domestic needs;
- performance bonds, letters of credit and other guarantees with Croatian and foreign Banks;
- completion of the construction of certain buildings.

Details on the guarantees regarding short-term bank loans and overdrafts by current account are contained in note 24.

Investments in refineries

During 2005, the Investment Center for Modernizing refineries was established based on a decision by the INA d.d. Management Board. The Company projected a capital investment program for its refineries in order to produce fuels which meet the increasingly strict environmental criteria (regarding the quality of oil products) which are applicable on the European market. The modernization of refineries should also comprise the ever stricter anti-pollution requirements during fuel production.

The aim of the establishment of the Investment Center and the teams of which it consists is to manage the realization of modernization projects for the Sisak and Rijeka Oil Refineries. The Program's goal is to meet the European standards for the quality of oil products and deadlines which have been established for the start of their implementation. The construction of new and modernization of the existing plants will significantly increase the refineries' processing capacity and greatly reduce the pollution of the environment.

For the realization of the refinery modernization project, 59 contracts with contractors and suppliers, in the total amount of 2.66 billion HRK have been concluded on 31 December 2007.

Investment in Energopetrol

Based on the investment in Energopetrol, the INA and MOL Consortium undertook the obligation under the Recapitalization Contract to invest 150 million BAM in the next three years, from the day of transaction execution:

1st year of investment - the amount of 20 million BAM (about 10 million EUR)

2nd year of investment - the amount of 35 million BAM (about 17.5 million EUR)

3rd year of investment - the amount of 95 million BAM (about 47.5 million EUR)

Participation and joint business operation agreement

Participation and Joint Business Operation Agreement for the contract area "Podravska Slatina-Zalata"

On 14 September 2006, INA d.d. and MOL concluded the Participation and Joint Business Operation Agreement for the contract area Podravska Slatina - Zalata. The contracting parties will equally share 50% of the participation segment in the Agreement.

Under the Agreement, the exploration period lasts for two years from the day of execution of the Agreement. In the event that there is no commercial discovery during the exploration period, the contract will be terminated.

In any case, the total duration of this Agreement will not exceed the period of twenty-five years from the date when first regular produced deliveries begin ("the Initial Commercial Production Date") with the possibility of prolonging the development and production period by subsequent periods up to a maximum of five (5) years according to the same conditions.

Based on positive results of investigations in 2007 and the discovery of a gas condensate field, the drilling of the second, exploratory and confirmatory well Dravica-1 on the territory of the Republic of Croatia is projected. The costs of the realization of the obligations assumed for making and testing the Dravica-1 exploratory well amount to 8 million EUR. Since INA is the operator, upon the completion of works, MOL will settle 50% of the well costs.

Participation and Joint Operator Activity Agreement for the Contract Area "Novi Gradac-Potony"

On 1 September 2007, INA and MOL concluded the Participation and Joint Operator Activity Agreement for the Contract Area "Novi Gradac-Potony". The contracting parties will equally share 50% of participation stake in the Agreement.

According to the Agreement, the exploration period will last three years from the date of execution of the Agreement. The obligations under the Agreement comprise screening 189 km2 of seismics and the construction of exploratory wells.

The realization of seismic works was planned for the end of 2007 and beginning of 2008. In 2008, obligations to MOL, GES and the so-called Third Party (reparations to legal and natural persons for field damages) remain to be settled as a part of seismic works, in the amount of 1.15 million EUR.

The construction of the first exploratory well on the Novi Gradac-Potony Project is planned for 2009. INA's obligations assumed for the construction of the first exploratory well amount to a maximum of 4.1 million EUR. The construction of the second exploratory well is planned for 2010, and depends on the positive results of the first well.

Purchase obligations under "take or buy" contracts

On 1 June 2005, INA d.d. concluded a contract with GAZEXPORT Ltd. Moscow for the annual procurement of 1.2 bcm of natural gas until 2010. As at 31 December 2007, the Company's future contractual obligations amount to 5.3 billion HRK until the expiry of the contract (31 December 2010).

Additionally, the Company concluded transport contracts in order to secure the delivery of gas to the destination point (FCA Croatian border). The transport contracts are valid only until 2010 for Slovakia, 2015 for Slovenia and 2017 for Austria. The future contractual obligations amount to 2.5 billion HRK until the expiry of the contract (until 2017).

Gas sale contracts

For the periods ending on 31 December 2007, the Group has the following long-term contracts for the sale of natural gas: In the period from 30 December 2007 to the expiry of the Contract:

1. Long-term contract between INA and HEP d.d. Zagreb
   a) Obligation under contract: 700,000,000 m^3 per year in 2008
   b) Annual income from sale: 980 million HRK
   c) Contract duration: 2015
   d) Estimated income for the remaining period: 7.8 billion HRK

2. Long-term contract between INA and Petrokemija d.d. Kutina
   a) Obligation under contract: 621,000,000 m^3 per year
   b) Annual income from sale: 807.3 million HRK
   c) Contract duration: 2008
   d) Estimated income for the remaining period: 807.3 million HRK

3. Long-term contract between INA and PLIVA-Hrvatska d.o.o. Zagreb
   a) Obligation under contract: 9,990,000 m^3 per year in 2008
   b) Annual income from sale: 14 million HRK
   c) Contract duration: 2013
   d Estimated income for the remaining period: 112 million HRK

4. Contracts between INA and natural gas tariff buyers (distributors)
   a) Obligation under contract: 1,342,342,500 m^3 in 2008
   b) Annual income from sale: 1.4 billion HRK

38. Contractual obligations

c) Contract duration: 2008

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

5. Contracts between INA and privileged natural gas buyers

a) Obligation under contract: 547,726,500 m^3 in 2008

b) Annual income from sale: 675.6 million HRK

c) Contract duration: 2008

d) Estimated income for the remaining period: 675.6 million HRK

6. Contracts between INA DIOKI (ETAN)

a) Obligation under contract: 76,800 ton in 2008

b) Annual income from sale: 123.8 million HRK

c) Contract duration: 2008

d) Estimated income for the remaining period: 123.8 million HRK

Water sale contracts

1. High technological quality water

a) Obligation under contract: 2,265,700 m^3 in 2008

b) Annual income from sale: 3.9 million HRK

c) Contract duration: 2008

d) Estimated income for the remaining period: 3.9 million HRK

2. Geothermal water

a) Obligation under contract: 392,000 m^3 in 2008

b) Annual income from sale: 1.4 million HRK

c) Contract duration: 2008

d) Estimated income for the remaining period: 1.4 million HRK

39. Unforeseen obligations

Environmental protection

The Group's and Company's basic activities, which consist of exploration, production, transport, refinery processing and dispatching of oil and gas, can by their nature have an effect on the environment, i.e. there can be emissions of harmful substances into soil, water and air. The effects of these activities on the environment are controlled by local administrations and state bodies which are in charge of environmental protection. In order to achieve a more efficient environmental protection, Croatia adopted the Environmental Protection Act (Official Gazette 110/07), and certain obligations, deadlines etc. will be defined by regulations at lower levels which will be adopted at a later date.

Croatia is in the process of accession negotiations for membership in the European Union. As a part of the accession process, strict environmental protection laws, applicable in other EU member countries, are gradually becoming part of Croatian legislation.

In 2006, within the preparation for the initial public offer, the company Golder Associates has conducted an independent evaluation of the status of environmental protection in INA's organizational unit and offered an assessment of the future investments necessary in order to harmonize INA with the EU environmental protection requirements and to eliminate previous contaminations. Thus, it was estimated that costs of harmonization with the EU legal requirements in the domain of environmental protection could amount to about 300 million HRK, and the recovery of soil and water, as well as elimination of previous contamination could cost about 200 million HRK. The Golder Report also includes about 35 million HRK which represent the Company's liability to currently applicable laws. Based on this Report, INA d.d. has reserved an amount of 35 million HRK at the expense of its business operations costs in its business books, for the amount of potential expenses which could arise in 2008 for the purpose of removing any consequences of pollution of air, water and soil.

39. Unforeseen obligations

Investment in environmental protection in 2007

Also, INA d.d., as an environmentally conscious company, invests more and more in modernization of its plants with the purpose of harmonization with environmental protection requirements. Thus, in 2007, more than 332 million HRK has been invested in projects directly related to environmental protection, of which 296 million HRK in the Refineries Business Division, about 24 million HRK in the Trade Business Division and 12 million HRK in the Oil and Gas Exploration and Production Business Division. The above investments do not include the investment in modernization of refineries, the primary goal of which is to increase the product quality, but which also have a significant environmental dimension.

In the Sisak refinery, the sulfur recuperation plant was completed and put into operation in September 2007, which will offer a long-term contribution to a systematic solution to the problem of emission of sulfur compounds into the air. The construction of the sulfur recuperation plant at the Rijeka Refinery has also started.

Activities and funds for harmonization with the legislation are also projected in the next few years.

Harmonization with technical environmental protection standards

In order to achieve harmonization with technical environmental protection standards prescribed by the Regulation on the Technical Standards for Protection of the Environment from Emissions of Volatile Organic Compounds which Result from Storage and Petrol Distribution, INA plans to implement a number of projects in the next five years in its organizational units where storage and petrol distribution take place.

The necessary funds are estimated at about 60 million HRK; 156 million HRK at the Sisak Refinery, 185 HRK at the Rijeka Refinery, 140 million HRK at the Logistics Sector and 166 million HRK at the Retail Network Management Sector.

At the Retail Network Development and Maintenance Sector, works on 337 petrol stations are planned, in order to ensure that vapors released when filling the tanks at petrol stations are returned to the mobile container through a reverse impermeable pipeline, and that the loading of petrol into the storage devices at petrol stations cannot be done if all the necessary devices are not in operation or do not function in a proper and reliable manner.

Reduction of emissions

For harmonization of emissions from large fueling devices, which is required by the Regulation on the Cutoff Values for Emission of Pollutants into the Air from Stationary Sources, INA plans to invest funds in the amount of 675 million HRK in the next four years: just over 408 million HRK in the Rijeka Refinery and about 267 million HRK in the Sisak Refinery.

Besides the above projects, significant investments will be made in other projects with indirect effect on the improvement of environmental protection. These investments in total will by far exceed the amounts allocated for investments in projects with direct effect on the improvement of environmental protection.

Sale of stakes in the company Siberian Energy Investments Limited and "White Nights"

In July 2002, the Group sold its stake in the company Siberian Energy Investments Limited, and therefore also in "White Nights", to the company Personal and Business Solutions. At the end of 2004, about 20 million USD remained outstanding to the company Holdina Guernsey Limited, INA d.d. dependent company, on the basis of sale, and therefore a lawsuit was raised against Personal and Business Solutions (on the basis of the potential liability contract, related to the renting of real estate used for "White Nights").

The amount of 20 million USD has been deposited to a special escrow account pending the final settlement of the dispute. In 2005, the parties in the dispute reached an agreement that 10 million USD from this account be paid to Holdina Guernsey Limited. This amount, increased by interest in the amount of 20,000 USD, was paid on 8 August 2005.

39. Unforeseen obligations

The Group intends to continue the dispute in order to collect the remaining 10 million USD, but as of the date of publication of these financial reports, a specific hearing date for this claim or potential liability has not been set. The Group will register the amount once it is released and paid to the Group.

40. Financial instruments and risk management

Gearing ratio

INA d.d. and INA Group's Treasury analyzes the structure of capital at semiannual level.
As a part of this analysis, the Treasury analyzes the capital cost and risk related to each capital item

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

	INA Group		INA d.d.	
	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 part of long-term liabilities	129	578	45	506
Money and money equivalents	(720)	(630)	(299)	(226)
Net debt	**4,203**	**3,308**	**2,831**	**1,811**
Equity	13,643	12,786	12,591	11,569
Debt-to-capital ratio	**31%**	**26%**	**22%**	**16%**

Fundamental accounting policies

The fundamental accounting policies and the methods adopted, including recognition criteria, the basis of valuation and the basis for recognizing income and expenditure for each class of financial assets, financial liabilities and principal instruments, are listed in detail in note 2 attached to financial reports.

Financial instrument categories

	INA Group		INA d.d.	
	2007	2006	2007	2006
Financial assets				
Loans and receivables (including money and money equivalents)	4,643	4,063	3,970	3,525
Financial assets available for sale	656	436	656	436
Financial liabilities				
Depreciation cost	8,455	6,838	8,102	6,513
Financial guarantees contract	596	380	596	380

Goals of financial risk management

The Group is exposed to the international market and receives significant funding from loans denominated in foreign currencies. As the result, the Group is sensitive to the effect of change of prices on crude oil, gas and oil derivatives market and the influence of exchange rate differences and interest rate changes. Due to the sale of goods with delayed payment, the Group is also exposed to the risk of uncollectability of receivables.

At INA d.d., the Treasury performs financial services for INA d.d. and coordinates the Group's financial operations at international financial markets, and monitors and manages financial risks related to INA d.d. business activities. The most important risks include market risks (exchange rate change risk, interest rate and price change risk), credit risk and risk from potential insolvency.

The most important risks, together with the methods used for managing these risks, are described below. To a very restricted extent, the Group has used derivative instruments for risk management. The Group does not use derivative instruments for speculative purposes.

Market risk

Commodity risk (price change risk) management

The variability of crude oil and gas prices is the prevailing element in the Group's business environment. The Group is a buyer of oil which is most often purchased through short-term arrangements in USD at the current market price. The Group also imports a significant part of the necessary gas whose purchase price is expressed in USD and changes on a quarterly basis, in accordance with the formula under the long-term gas purchase contract.

The greatest part of INA d.d. sales are the sales of oil derivatives and wholesale of gas. The formula for defining the price of oil derivatives is set by the Ordinance on Determining the Prices of Oil Derivatives which is in force since 2001, and offers the Group significant protection from oil and derivatives price changes and from exchange rate risk, allowing a change of derivatives price every two weeks, depending on the change of prices on the market (Platts) and the changes to the HRK-to-USD exchange rate. In 2007, it was not possible to fully apply the price formula mechanism due to the activities of the majority owner.

The Group does not use forward contracts for the purpose of oil and gas price change risk management.

Currency risk management

The Company executes certain transactions in foreign currency, and is therefore exposed to the risks of exchange rate changes.

The table below shows accounting amounts of the monetary assets and monetary liabilities of the Company in foreign currency at the date of the report.

	Liabilities		Assets	
INA Group	**2007**	**2006**	**2007**	**2006**
	Mln HRK	**Mln HRK**	**Mln HRK**	**Mln HRK**
Amount denominated in USD	5,569	4,083	803	748
Amount denominated in EUR	256	272	242	169
	5,825	**4,355**	**1,044**	**916**

40. Financial instruments and risk management

	Liabilities		Assets	
INA d.d.	2007	2006	2007	2006
	Mln HRK	Mln HRK	Mln HRK	Mln HRK
Amount denominated in USD	5,524	4,072	992	591
Amount denominated in EUR	198	228	198	37
	5,722	**4,300**	**1,190**	**628**

Analysis of sensitivity to currency risk

The Company is mostly exposed to the currency risk of changes to the HRK-to-USD exchange rate, due to the fact that the trade in oil and gas at the international market is mostly done in USD.

The table below shows the analysis of the Group's and the Company's sensitivity to the increase of the HRK exchange rate by 10% in 2007 (10% in 2006) with respect to the relevant foreign currencies. Previous vulnerability rates are the rates which represent the management's estimate of the realistic changes of exchange rates. The sensitivity analysis includes only open monetary items in foreign currency and their conversion at the end of the period on the basis of percentage change of exchange rates. The sensitivity analysis includes monetary assets and monetary liabilities in the currency. The negative figure shows the reduction of profit if HRK changes with respect to the relevant currency by the above percentages. In the case of inversely proportional value change of HRK with respect to the relevant currency, the effect on profit would be equal and opposite.

	Currency US$ Impact		Currency EUR Impact	
INA Group	2007	2006	2007	2006
	Mln HRK	Mln HRK	Mln HRK	Mln HRK
Profit / (loss)	(489)	(352)	8	(34)
	(489)	(352)	8	(34)

	Currency US$ Impact		Currency EUR Impact	
INA d.d.	2007	2006	2007	2006
	Mln HRK	Mln HRK	Mln HRK	Mln HRK
Profit / (loss)	(465)	(366)	9	(43)
	(465)	(366)	9	(43)

The exposure to changes to the exchange rate of the currency shown by 10% is largely related to the status of suppliers and the received loans stated in USD.

Interest rate risk management

Due to the fact that the INA Group companies use loans with fixed and variable interest rates, the Group is exposed to the risk of interest rate change. A large majority of the Group's loans was contracted with variable interest rates.

Interest risk sensitivity analysis

The following sensitivity analysis is based on the exposure to the risk of change to interest rates on the balance sheet date. For liabilities tied to a variable interest rate, the analysis was made under the assumption that the amount of liabilities stated on the balance sheet date was valid throughout the year. An increase or decrease of interest rates by 50 base points is used in internal reporting on the interest rate risk and represents the management's estimate on the reasonable possible interest rate change.

In the event of increase/decrease of interest rate by 50 base points, under the assumption of stability of other variables, the following changes would occur in expenditure for INA d.d. interest. Due to the increase in long-term debt with a variable interest rate, the effect of any changes to interest rate on profit is also increased.

	INA Group		INA d.d.	
	2007	2006	2007	2006
Effect of short-term loans interest rate change	1	1	1	1
Effect of long-term loans interest rate change	16	10	15	9
Total change:	**17**	**11**	**16**	**10**

In the event of change to the interest rate by 50 base points, the Group's profit as at 31 December 2007 would increase/decrease by 17 million HRK (in 2006, the increase/decrease was by 11 million HRK), and INA d.d. profit would increase/decrease by 16 million HRK in 2007 (by 10 million HRK in 2006).

Other price risks

The Group is exposed to risks of changes to the principal price which result from equities. Equities are kept for strategic reasons and not for trading.

Principal price sensitivity analysiss

Sensitivity analyses given below were made on the basis of exposure to price risk of the principal on the reporting date.

- this would not affect the current year's profit, 31 December 2007 included, since equities were listed in the category of available for sale

- other INA d.d. reserves in the principal would be greater by 54 million HRK (42 million HRK in 2006), resulting from the changes to the fair value of stocks available for sale.

In the event of reduction by 10%, the effect on the principal would be equal and opposite.

The Group's sensitivity to the prices of principal did not change significantly compared with the previous year.

Credit risk management at INA d.d.

Credit risk is risk from non-payment or failure to fulfill the contractual obligations by the Group's customers, which can cause possible financial loss of the Group. INA d.d. has adopted the "Procedure for Credit Risk Management" which is implemented in operations with customers, and collects the payment insurance instruments wherever possible, for the purpose of protection from potential financial risks and losses due to failure to pay or to fulfill contractual obligations.

Customers are classified into risk groups according to the financial business indicators and their business history with INA d.d., and appropriate credit risk protection measures are applied for each group.

Data from the customer's official financial reports are mostly used for customer categorization, ratings from independent providers of creditworthiness information are obtained, and INA d.d. information on customer history is used.

INA d.d. exposure analysis and customer credit rating processes are continuous, and credit exposure is monitored and controlled through credit limits which are modified and verified at least once a year.

INA Group has business transactions with a large number of customers of different business structures and sizes.

40. Financial instruments and risk management

The greatest credit risk concentration refers to state institutions and customers in state ownership. Since INA Group is itself in majority state ownership, the credit risk is significantly dependent on the policy of the Croatian Government.

INA d.d. does not have a significant credit exposure not covered by insurance instruments, except with respect to the above institutions and companies in majority state ownership. Therefore, receivables from the above institutions and customers in majority state ownership pose a real credit risk, just below 5% of the total receivables on the balance sheet date.

Solvency risk management

The responsibility for solvency risk management is with the Management Board, which sets the appropriate framework for solvency risk management, with the purpose of managing short-term and long-term financing and solvency requirements. The Group manages the solvency risk maintaining adequate reserves and credit lines, continuously comparing the planned and achieved flow of funds, while monitoring the maturity of assets and liabilities.

Table analysis of solvency risks and interest rate risks

The tables below show the maturities of INA d.d. and INA Group's contractual obligations given in the balance sheet at the end of the period. The tables were made on the basis of non-discounted monetary outflows by financial liabilities on the due date. The tables show money flows by principal and interest.

INA d.d. interest-free liabilities up to one month mostly consist of liabilities to suppliers in the amount of 2,305 million HRK for 2007 (2,002 million HRK in 2006) and liabilities for taxes and contributions in the amount of 535 million HRK (478 million HRK in 2006).

INA Group	Up to 1 month	From 1 to 3 months	From 3 to 4 months	From 4 months to 1 year	From 1 to 5 years	After 5 years	Total
2007							
Interest-free liabilities	3,354	1,161	-	194	-	1,641	6,350
Interest-bearing liabilities	-	161	-	1,632	3,130	-	4,923
	3,354	**1,322**	**-**	**1,826**	**3,130**	**1,641**	**11,273**
2006							
Interest-free liabilities	3,274	617	-	162	-	1411	5,464
Interest-bearing liabilities	-	197	-	2,316	1,425	-	3,938
	3,274	**814**	**-**	**2,478**	**1,425**	**1,411**	**9,402**

INA d.d.	Up to 1 month	From 1 to 3 months	From 3 to 4 months	From 4 months to 1 year	From 1 to 5 years	After 5 years	Total
2007							
Interest-free liabilities	2,860	784	-	97	-	1,539	5,280
Interest-bearing liabilities	-	98	1,982	45	2,988	-	5,113
	2,860	**882**	**1,982**	**142**	**2,988**	**1,539**	**10,393**
2006							
Interest-free liabilities	2,619	487	-	121	-	1,323	4,550
Interest-bearing liabilities	-	159	2,137	506	1,372	-	4,174
	2,619	**646**	**2,137**	**627**	**1,372**	**1,323**	**8,724**

INA d.d. interest-free liabilities longer than 5 years also comprise long-term reserves for closing wells in the amount of 1,069 million HRK in 2007 (942 million HRK in 2006).

The interest liabilities also show the liabilities on the basis of short-term and long-term loans, as well as liabilities to suppliers for oil.
The same applies to the Group.

INA d.d. usually imports crude oil and derivatives through its foreign branches, Interine London and Interine Guernsey. In accordance with standard international practice, the purchase of oil is realized by opening irrevocable documentary letters of credit to the benefit of the supplier, with first-rate business banks and using trade financing.

Fair value of financial instruments

Fair values of financial assets and financial liabilities are determined as follows:

- fair value of financial assets and financial liabilities traded on active solvent markets, under standard conditions, is determined according to the prices listed on the market

- fair value of other financial assets and other financial liabilities (excluding derivative instruments) is determined according to the price determination models, and based on the analysis of discounted money flows, using prices from known transactions on the market and prices offered for similar instruments

In accordance with IAS 39, "Financial Instruments: Recognition and Measurement", the derived financial instruments are shown in the balance sheet at fair value, including the changes to this value in the profit and loss account.

The Group has concluded specific long-term purchase and sale contracts which, in accordance with IAS 39, contain incorporated derived financial instruments. An incorporated derived financial instrument is a part of the contract which influences the change of the money flows arising from the contract, partially, in a similar way to independent derived financial instruments. IAS 39 requires that such incorporated derived financial instruments be separated from the basic contracts and that they are registered as derived financial instruments, listed as assets intended for trade and entered at fair value, including booking the changes to the fair value at the expense or to the benefit of the profit and loss account. Fair value of incorporated forward contracts in foreign currency is determined on the basis of current exchange rates for foreign currencies on the balance sheet date. This value is defined as the difference of the cumulative inflation index between the contracted inflation escalator and the inflation in the country where the contract is executed. The long-term effect of these incorporated derived financial instruments is discounted, using discount rate similar to the interest rate on government bonds.

Fair value of incorporated derived financial instruments included in the balance sheet under short-term assets and net trends throughout the year is as follows:

	INA Group & INA d.d.	
	2007	2006
Fair value as at 1 January	328	289
Financial income/expenditure referring to the net change of fair value of incorporated derived financial instruments in the current year (notes 6 and 7)	(5)	39
Fair value as at 31 December	323	328

40. Financial instruments and risk management

	INA Group & INA d.d.	
	2007	2006
Analysed as:		
Current part	97	77
Long-term part	226	251
	323	**328**

41. Events after the balance sheet date

Modification of applicable laws and regulations

As of 1 January 2008, the new regulation, Ordinance on Determining the Prices of Oil Derivatives (Official Gazette 133 27/12/2007), by which a modified component was introduced into the wholesale price (depending on the type of quantities of fuel sold), as is specified further in this Article, entered into force. Until 31 December 2007, the fee for financing the Croatian Compulsory Oil Stocks Agency was equally charged for all types of fuel, at 150 HRK per ton of fuel sold, and from 1 January 2008, the Ordinance stipulates that:

The fee is determined for financing the work of the Croatian Compulsory Oil Stocks Agency for 2008, for oil derivatives which are put on the domestic market in the period from 1 January 2008 to 31 December 2008, in the following amounts:

- 150 HRK per ton of oil derivatives under Article 12, Paragraph 1, Section I of the Act on Oil and Oil Derivatives Market (hereinafter: the Act);

- 190 HRK per ton of oil derivatives under Article 12, Paragraph 1, Section II of the Act on Oil and Oil Derivatives Market, except for jet engine fuel;

- 80 HRK per ton of oil derivatives under Article 12, Paragraph 1, Section III of the Act on Oil and Oil Derivatives Market, including jet engine fuel.

Crosco B.V.

In January 2008, Crosco d.o.o. Zagreb founded a new company in the Netherlands, Crosco B.V., in which it is the 100% owner. The company's business activity is provision of services related to extraction of oil and gas, as well as leasing the equipment for the above activities.

42. Approval of the financial statements

The financial reports were adopted and their publication approved by the Management Board on 11 March 2008.

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

Zalán Bács
Vice President of the Management Board &
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The accompanying accounting policies and notes form an integral part of this consolidated income statement.

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Impressum

Publisher: INA, d.d.

For the publisher: Maja Zovko Miholić, M.S.

Editors: Bojan Vinek and Darko Limanović

Photographs: Ferdo Buva, Tomislav Lazarić, Miljenko Marohnić

Translation and proof-reading: Lancon d.o.o.

Design: Digitel

Layout: Digitel

Press: Grafocolor d.o.o. Zagreb