INA

INDUSTRIJA NAFTE, d.d.

Annual Report 2002

Contents

Corporate profile

History and incorporation

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

By the end of the 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 42/90 and the 61/91 supplement, INA became a state owned enterprise.

In 1993 INA became a share based company (or “d.d.”) pursuant to Law 60/93. At the date of release of these financial statements, 100% of the shares in INA are owned by the Republic of Croatia.

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

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

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 the Law up to 25% plus one share will be sold to a strategic investor, 15% of the shares will be sold through public offering, up to 7% will be sold to present and former employees of the INA group of companies, up to 7% will be transferred without compensation to Croatian war veterans and members of their families, the remaining 21% will be exempted to the extent necessary for the compensation to the original, former owners, and the remaining shares will be sold or exchanged depending on the prevailing market conditions. The Republic of Croatia will maintain ownership of 25% plus one share of INA, which will be privatised once Croatia becomes a member of the European Union.

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. At the date of this report, the evaluation by the Government of the bids received is in progress.

Principal activities

The principal activities of INA and its subsidiaries (the group), are:

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

(II) importation of natural gas and the sale of imported and domestically produced natural gas to industrial consumers and municipal gas distributors;

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

(IV) distribution of fuels and associated products through a chain of some 393 retail outlets currently in operation throughout Croatia.

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

(VI) service activities incidental to onshore and offshore oil extraction through its drilling and other oilfield services subsidiary Crosco d.o.o.

(VII) providing services in construction of oil and gas pipelines, process facilities and maintenance of process plants STSI d.o.o. Zagreb

(VIII) production and marketing of lubricants, industrial greases and similar products Maziva Zagreb d.o.o.

(IX) operation and management of holiday homes, hotels and other facilities owned by INA, Hostin d.o.o. Zagreb

(X) car and boat rental - ITR d.o.o. Zagreb

(XI) bottling, distribution and marketing of LPG in Croatia is carried out by Proplin d.o.o. Zagreb.

The group has dominant positions in Croatia over oil and gas exploration and production, oil refining, and the distribution of gas and petroleum products. At 31 December 2002 INA also held a 16.63 % (2001 - 38%) interests in JANAF, d.d., the company which 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 2002, the group employed 15,699 personnel (2001 - 17,038).

The group comprises a number of wholly and partially owned subsidiaries and associate companies 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. A full list of the principal subsidiaries and associate companies is included in notes 9 and 10 to the financial statements. The Group's 100% interest in White Nights, a Russian exploration and production company, was sold during 2002, as detailed in note 22.

Corporate Profile (continued)

Directors and management

General Assembly

For each General Assembly meeting the Government appoints its representative.

Supervisory Board

Slavko Linić (Chairman)
Božidar Pankretić
Damir Kuštrak
Roman Nota
Damir Vrhovnik
Dragica Zgrebec (Deputy Chairman to 9 March 2002)
Damir Pešut

Management Board

Tomislav Dragičević
Chairman of the Board
Željko Vrbanović
Member of the Board
Executive Director Refining and Wholesale
Željko Belošić
Member of the Board
Executive Director Exploration and Production
Milan Ujević
Member of the Board
Executive Director Finance and Controlling
Sanjin Kirigin
Member of the Board
Executive Director Marketing (SD Trgovina)
Maja Brinar
Member of the Board
Privatisation (from 1 June 2002)


Dr. Tomislav Dragičević


Dr. Željko Vrbanović


Željko Belošić


Milan Ujević


Sanjin Kirigin


Maja Brinar

Tomislav Dragičević, Chairman of the Board

Dr Tomislav Dragičević (51), doctor of chemical sciences, was appointed general director of INA in March 2000. From June 2000, following implementation of the new Articles of Association, he became the Chairman of the Board. Prior to appointment to this post Dr Dragičević was Director of Strategic Planning and R&D Sector.
He graduated from the Faculty of Chemical Engineering, University of Zagreb. In 1984 he got his masters degree in chemical engineering, in 1993 doctors degree in chemical engineering.

Željko Belošić, member of the Board and executive director for Oil and Gas Exploration and Production

Željko Belošić (56) was appointed executive director of E&P in May 1999 and in June 2000 he became the member of the Board responsible for E&P activities. Before that position he was director of CROSCO, integrated oilfield services company, member of INA Group.

Željko Vrbanović, member of the Board and executive director for Refining and Wholesale

Dr Željko Vrbanović (57) was executive director for refining from 1993 to 1997. After that he was director of INTERINA Ljubljana and in 2000 he became member o the Board responsible for Refining and Wholesale. Mr Vrbanović has a doctors degree in chemical engineering.

Milan Ujević, member of the Board and director of Finance and Controlling Function

Milan Ujević (57) was appointed director of Finance and Controlling in March 2000 and in June he became member of the Board responsible for finance and controlling. Before that position he was adviser to general director for organization and restructuring and director of Government's Office for restructuring of state-owned enterprises.

Sanjin Kirigin, member of the Board and executive director of Marketing

Sanjin Kirigin (45) was appointed member of the Board and executive director of Marketing in Decembr 2001. Before that position he was director of the Rijeka lubricants plant and in April 2000 he was appointed director of the fuels refinery Rijeka. Mr Kirigin is chemical engineer.

Maja Brinar, member of the Board for coordination of privatisation

Maja Brinar became the member of the Board on 1 June 2002 in charge of privatisation of INA. Miss Brinar came to this position from the Ministry of Economy where she was deputy minister.

Corporate profile (continued)

Letter from the Chairman of INA's Supervisory Board

It is my pleasure to present INA's results for 2002. The positive trend in the company's financial performance in 2001 has continued. The process of privatisation of the INA Group started in 2002 and extended well into 2003, but it is expected that it will be successfully completed in the first half of 2003. It is very likely that in the next Annual Report the Chairman of the Supervisory Board will address new stockholders.

In 2002 INA Group recorded a profit of HRK 982 million and the parent company INA d.d. generated profit of HRK 854 million. These are major improvements compared to the 2001 results when the profit of INA Group was HRK 358 million and profit of the parent company, INA d.d. was HRK 717 million.

During 2002 the management of INA continued to undertake restructuring measures which are delivering results. Restructuring measures included streamlining of core operations, cost reduction schemes and spinning off of other non-core businesses. The newly established subsidiaries that were separated from INA d.d. at the beginning of 2002 i.e. Proplin d.o.o. engaged in LPG business and STSI d.o.o., the Group's maintenance company, ended the year with encouraging results. Already, the businesses are exploiting business opportunities in the open market more intensively and adjusting to new challenges. In April 2002 the lubricant plant Maziva Zagreb was also separated into a profitable new subsidiary.

The Group's enhanced financial performance enables INA to commence a number of large capital investment projects selected using rigorous return on investment criteria.

One of the most significant is the development of the North Adriatic gas fields. This project involves field development operations, construction of satellite platforms and the construction of underwater pipelines. The estimated value of the investment is about US$ 350 million to be divided among the partners (ENI and INA) on equal basis.

This is an important project for INA because it will increase production of natural gas, but also for

Corporate profile (continued)

Letter from the Chairman of INA's Supervisory Board (continued)

for the wider community because it will bring gas to currently non-served areas in Istria, coastal areas around Rijeka and other parts where the pipeline will go through. It will also boost gas distribution activities. The entire project has strong support by the Croatian Government because such large infrastructural projects contribute to overall economic development and creation of new jobs.

During 2002 INA carried out various activities with the aim of preparing project documentation for the development of the offshore gas fields: Ika, Ida, Annamaria and Marica, and for the construction of infrastructure for gathering, processing and delivery of natural gas. The project is scheduled for completion in 2005, when the section of transportation route from Pula to Karlovac to be constructed by the gas transportation company, Plinacro, is also due to be completed.

In September 2002 a new gas tariff system was introduced that diminished the disparity between imported and domestically produced natural gas. This price increase enhanced revenues and margins from the Group's gas business in the last quarter of 2002.

The E&P segment was the most profitable part of INA. It benefited from higher crude oil prices but the production volumes were also higher than planned. Enhanced oil and gas recovery techniques applied on existing fields have proved successful and contribute to higher production volumes from domestic reserves. The year was also marked by the discoveries in Syria. Exploration wells Jihar-1 and Al Mahr-1 on the Hayan block encountered gas condensate reserves while the well Palmyra-1 discovered a gas field. Further appraisals are underway.

INA also plans major investment projects in its refining segment in order to meet the quality standards that are being set for the coming years. During 2002, INA has made significant progress in producing diesel (Eurodiesel) and petrol in compliance with EU standards, which has also been important for maintaining its market share in Croatia and the neighbouring markets, particularly in Bosnia and Herzegovina. However, INA's refining facilities still require technological upgrading and plans for modernisation of initially the Rijeka refinery, and, subsequently the Sisak refinery, are being finalised.

The Marketing segment performed well during 2002, although the retail market is becoming increasingly competitive. Sales volumes remained at a level similar to 2001 but good performance was achieved as a result of reduced costs and efficiency improvements.

The Supervisory Board will continue to monitor the realisation of INA's business plan and the large investment projects that include the development of the North Adriatic gas fields, further exploration and development operations in Syria, and modernisation of the refineries.
The privatisation process that was started in 2002 continued in 2003. The Government decided to sell a stake of 25% plus one share of INA to a qualified strategic partner. The three shortlisted

The privatisation process that was started in 2002 continued in 2003. The Government decided to sell a stake of 25% plus one share of INA to a qualified strategic partner. The three shortlisted bids are being appraised and it is expected that the most successful bidder will be selected in the near future. The Government and INA wish to secure for the company a strong strategic partnership to maintain INA's competitive position in the Croatian oil and gas market and to facilitate further expansion. The oil and gas sector in the region is entering a phase of realignment and consolidation and this strategic sale will enable INA to play an important role in the process.

So, in 2002 INA has restructured its businesses, prepared plans for investments in core activities and improved financial performance of the parent company and the Group. All these steps are important for the forthcoming privatisation. It is our wish to finalise the privatisation process successfully in order to ensure growth and development of the company to the benefit of its employees, the Croatian economy and the community at large.

Slavko Linić
Chairman of the Supervisory Board

Corporate profile (continued)

Foreword by the Chairman of the Board

In 2002 INA performed extraordinarily well despite difficult market conditions. INA d.d, the parent company posted a profit of HRK 854 million while the profit of INA Group was HRK 982 million. It is my pleasure to inform you that this is the third consecutive year that INA generates profit which is constantly growing. The enhanced financial performance enables INA to start a new investment cycle in all key segments: exploration and production, refining and marketing and to secure future returns for stockholders.

The largest contribution to INA d.d.'s operating profit was made by Exploration and Production Division - Naftaplin which produced 1.34 million tonnes of oil and condensate and 1.8 billion cm of natural gas. The volume of crude oil produced by the Group is reduced relative to 2001, reflecting the disposal of the Group's Russian subsidiary, White Nights, which was sold in 2002. However, the internal profit generated by the E&P segment of HRK 1,336 million is HRK 194 million higher than in 2001.

In oil and gas exploration and production we have focused our activities on interests abroad. On one of such interests in Syria, INA's E&P segment achieved success with the discovery of gas condensate reserves. The three exploration wells that were drilled on the Hayan block were successful. According to early appraisals potential gas reserves are estimated at 35 billion cm and condensate at app. 10 million cm. More accurate data on recoverable reserves will be available following completion of field development studies. Exploration operations in Syria have continued in 2003.

Production of natural gas from the Ivana offshore field in the Adriatic has increased. INA's share of produced gas under the production sharing agreement signed with Agip increased to 317 million cm in 2002 from 291 million cm in 2001. Production volumes will be further increased but INA will face difficulties with transportation of this gas to consumers in Croatia due to limited capacity of the Italian and Slovenian transportation systems. The problem will be resolved by the planned construction by INA of underwater pipelines connecting offshore production systems with the mainland. Construction of an adjoining pipeline from the coast to Karlovac, where it

Corporate profile (continued)

Foreword by the Chairman of the Board (continued)

will be connected to the existing grid, will be carried out by Plinacro d.o.o. and completed by the end of 2005.

The economics of this project will be fully justified as other satellite fields in the North Adriatic, Ika, Ida, Annamaria and Marica come on stream with estimated total natural gas production of 1.5 bcm per year, to be divided among the partners (50:50%) in accordance with production sharing agreement. During 2002 INA has undertaken all necessary preparations for the ensuing development phase that is expected to be completed in 2005.

This capital investment project will be prioritised to ensure additional supplies of natural gas to the Croatian market and to expand the network to the areas that have not previously been served. In addition, through the new pipeline system INA gains the flexibility of a new import route from Western Europe.

With the implementation of this project together with other exploration and production projects in Croatia and abroad, we are working toward meeting our strategic goal which is generating value through enhanced reserve replacement and production growth.

In the Refining segment our strategic goal is to improve the economics of the business segment through further modernisation of the Rijeka and Sisak refineries and developing the capacity to produce derivatives which are compliant with EU specifications. Throughout 2002, the Refining and Wholesale segments made considerable progress in meeting growing demand for European quality products, not only in the neighbouring markets but also in Croatia. This progress was achieved through a number of minor investments and process reengineering initiatives, however, a comprehensive solution involving the upgrading of both fuels refineries is needed.

In 2002 our Wholesale segment maintained a leading position in the Croatian market and even increased exports to the Bosnian market.

Our retail business performed particularly well. In 2002 the segment generated internal profit of HRK 436.3 million which is by HRK 211 million higher than in 2001. The financial performance has improved as a result of further rationalisation in stock management, logistics, staff costs and other cost reductions and efficiency improvements. In addition, sales margins were higher than last year and all these factors impacted the profitability of the business.

However, sales volume growth was not achieved as competition intensifies and imports of derivatives are further liberalised. Nevertheless, INA has maintained its leading position in the Croatian market, and we are committed to sustain this leading position by strengthening our brand and quality management, and focusing on customers, business partners and the public.

The construction of new sites and reconstruction of the existing ones proceeds according to our investment plans. In addition to high standard of service, the new sites will have state-of-the-art enviromental protection systems.

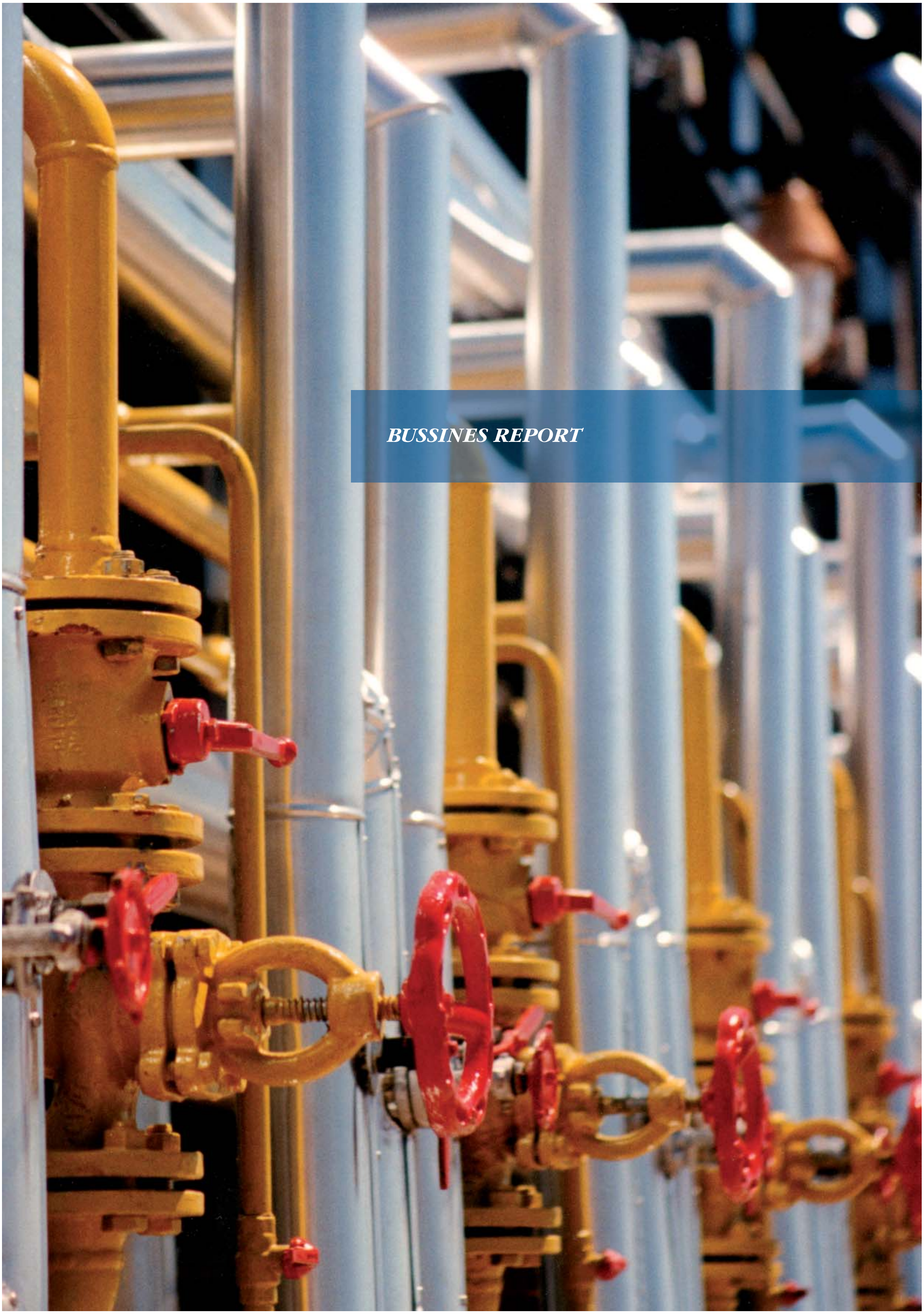
In 2002 INA sold its interest in Siberian Energy Investments Limited and White Nights LLC.

Also, in March 2002 INA disposed 100% of its interest in the gas transportation subsidiary Plinacro d.o.o., and a 21.37% interest in JANAF d.d. to the Croatian Government in consideration for the assumption by the Government of certain long term debt. Today INA holds 16.63% interest in JANAF. In addition, in 2002 INA benefited from net gains arising from favourable movements in foreign exchange rates. The above factors had added to INA's financial position and overall profitability for the year.

The enhanced profitability will enable us to raise funds for large capital investments for the implementation of the projects such as bringing on stream the new North Adriatic gas fields, further exploration and development of new discoveries in Syria and modernisation of INA's refineries. These three represent INA's most significant projects, which are expected to be completed in 2005 / 2006. Their successful realisation will require commitment and expertise of our people from various business segments. We can certainly count on the high motivation and skill of our people, particularly on projects such as these that will contribute to the future development and prosperity of the Group and the community at large.

The privatisation of INA that was initiated in 2002 remains on course and the selection of the strategic partner by the Croatian Government is in final stage. We believe that together with its new strategic partner, INA will reinforce its position in the region and secure its future growth.

Tomislav DragiËeviÊ
Chairman of the Board



BUSSINES REPORT

Bussines report

INA'S VISION

to be a recognized and desirable partner, known for the excellence of products and services, good and fair relations with customers, and committed to safeguard the interests of our key stakeholders.

INA'S MISSION

To remain vertically integrated oil corporation, an influential player in the oil and gas market in Croatia and neighbouring countries. INA is committed to work toward continuous upgrading of our businesses and quality of our products and services with the aim to create increasing value for its stakeholders.

Core values

To attain our vision and meet our strategic objectives, it is essential to commit ourselves to responding to our stakeholders expectations: in the first place our owners, customers and communities in which we operate, taking care that we do not harm the environment with our operations. Hence our core values are:

Benefits for the owner

To generate value for our owners and potential investors.

Partnership with customers

To meet customer needs and expectations and earn their trust and permanent recognition.

Respect for local heritage - our recognisable image

To maintain a recognisable image through cooperation and respect for cultural, religious and other specific features of the communities that we operate in.

Benefits to employees - creativity - integrity

To recognize the needs, interests and skills of employees by fostering incentives, rewards and career development opportunities because our workforce is one of our key success factors.

HSE Commitment

Health, safety and environmental protection must be at the core of our activities and a priority in the development and research of products and services.

Health, Safety and Environment

INA pays great attention to the health and safety of people and to environmental protection in all areas of its activities. Concern for the environment has long ago ceased to be declarative but it forms part of our business policy. Quality management, health, safety and environmental protection have been integrated into INA's management system. A number of INA's organisational units have been certified. Refineries in Rijeka and Sisak, including Maziva Rijeka have been ISO 14001 certified, while refinery Sisak has also OHSAS certificate.

For almost 10 years now INA has been publishing Environmental Annual Report that covers all key activities with particular emphasis on oil and gas exploration and production, marketing and distribution of natural gas and oil products.

INA has been rewarded for its achievements in the area of environmental protection by various local authorities and government institutions. In addition, INA organised, or participated in, a number of conferences, expert meetings and workshops dealing with the environmental protection, health and safety issues.

In cooperation with the European Bank for Reconstruction and Development several environmental projects have been undertaken in different business divisions. The total value of the projects is EURO 36 million. The projects are carried out in E&P, in the refineries, lubricant plants and in the retail network for the construction of new sites. In the realisation of new constructions, or in the upgrading of existing facilities, we take into account the highest safety and health standards, as well as preventing of pollution of soil, air and water.

Health, safety and environmental protection represent our key concern in all our development efforts. For this purpose the environmental policy has been designed on the corporate level and on the level of each business segment. Special environmental protection departments and units across the organization are environmental protection departments and units across the organization are in charge of implementing this policy and the carrying out the various measures related to the HSE policy.

In 2002 there were no serious accidents. We have successfully implemented numerous preventative and protective measures and worked on achieving compliance with strict Croatian environmental legislation which is constantly being adjusted with EU regulations.

In 2002 the E&P segment received an annual reward from the Ministry of Environmental Protection for the successful management of process waste created during oil and gas production, treatment and final disposal in accordance with best practice and economic principles.

Each year INA publishes a separate Annual Environmental Report.

Oil and Gas Exploration and Production
Naftaplin

Oil and Gas Exploration and Production

INA Naftaplin

Oil and gas reserves in Croatia and abroad at 31 December 2002 audited by Altinex Canada Inc.:

	Unit	Proved	Proved + Probable
Oil	10^3 m^3	9,840	10,376
Condensate	10^3 m^3	3,055	3,416
Total oil + condensate	**10^3 m^3**	**12,895**	**13,792**
Gas	10^6 m^3	24,712	28,309
Total OE	**10^3m^3**	**37,607**	**42,101**

Higher crude and gas output and higher crude oil prices contributed to excellent results from the E&P segment

Oil and Gas Production

In 2002 INA produced 1.34 million tonnes of oil and condensate, comprising:

- In Croatia 770,215 tonnes of oil and 338,235 tonnes of condensate
- in Angola 167,808 tonnes of oil
- in Egypt 65,372 tonnes of oil

The declining production from domestic fields was alleviated by the application of various secondary methods aimed at increasing oil recovery. For this purpose 25 capital workover operations were carried out on the Bokšić-Klokočevci, Bunjani, Šandrovac and Lipovljani oil fields. The following development wells were put on stream: Jam-18, Lip-176, Ša-239, Ša-240, Žu-140RH and Žu-277H1, as well as five wells on the Bunjani field. As a result, oil output was increased by 18,500 tonnes. In order to maintain the level of production on the existing wells, 350 regular workover operations were performed during the year.

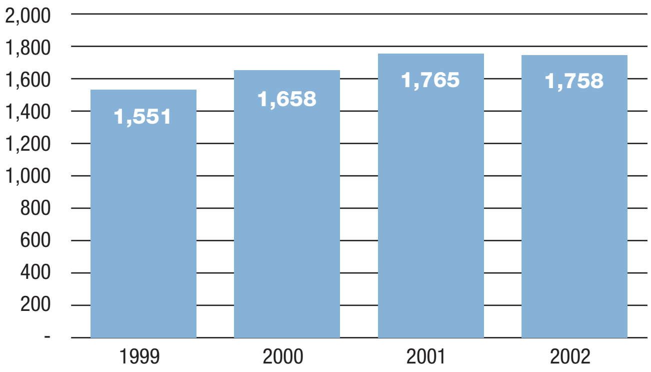
Total natural gas production was 1,758 million cm of which the offshore production from the Ivana field was 317,236,750 cm, representing INA's share under the terms of the production sharing agreement with Agip.

The Beničanci onshore gas field was put on stream during 2002 with daily production of 120,000 cm of gas. New "velocity string" technologies were applied on the Okoli and Legrad gas fields, which enabled optimal operation of the production wells. Total hydrocarbon production in 2002 was somewhat higher

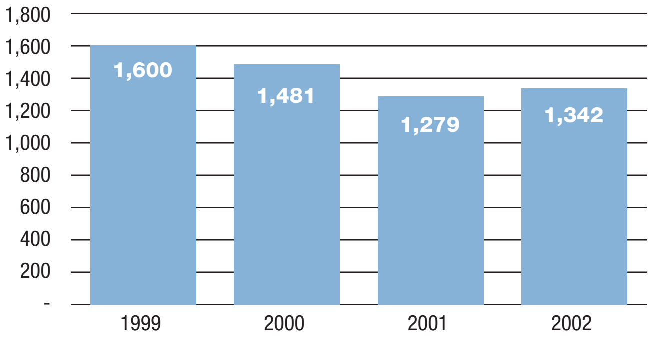
Total hydrocarbon production in 2002 was somewhat higher than planned. Total output per product was as follows: crude production 40%, condensate 11% and natural gas 42%. The remaining portion included production of LPG (77,546 tonnes), virgin naphta (32,450 tonnes), ethane (60,511 tonnes), fresh water (2,222,841 cm) and geothermal water (365,150 cm).

Safety at work and environmental protection activities represent an integral part of oil and gas production processes. On the occasion of the World Environmental Day the Croatian Ministry of Environment awarded an annual award to INA'S E&P segment for successful management of process waste created during oil and gas production, treatment and final disposal in accordance with best practice and economic principles.

Natural gas production (mil.m^3)



Oil and condensate production (000 T)



Oil and Gas Exploration and Production (con.)

INA Naftaplin (continued)

Exploration activities

Promising discoveries of gas and condensate fields in Syria

In 2002 the trend of intensive exploration activities abroad has continued. Thanks to excellent exploration results in the early stages, priority has been given to the Hayan block in Syria.

Exploration in Croatia

Exploration activities in Croatia are in decline due to increasing exploration risks. The operations were focused on preparation of regional studies and specific projects in the Pannonian basin with the aim of assessing remaining reserves of oil and gas. One exploration well was drilled on the Kopčevec prospect in the Sava depression. This well, Kop-1, encountered oil together with CO_2 . It is an interesting discovery (at 2900 m depth) showing excellent basin collector features. For the time being the well is shut in, awaiting further workover operations and possible CO_2 production that could be used for enhanced recovery operations on other fields.
Two exploration wells were drilled on the Aiza-Laura block in the north Adriatic. The well Korina-1DIR did not result in expected gas discovery. The other well Katarina-2 discovered accumulations of gas which are under evaluation.

In early 2002 a production sharing agreement was signed with Edison Gas, Italy for the three offshore blocks in the Adriatic: Izabela, Iris and Iva.

Exploration abroad

In addition to Syria, exploration operations were carried out in Albania, Egypt and Angola.

In Albania drilling of the well Dajlani-1 started in the second half of July 2002 after extensive preparations. The well was dry and in 2003 the operations on this block have been abandoned.

In Egypt on the North Eastern Desert (NED) block, exploration works have entered into the second stage. According to the licence agreement, INA will drill three exploration wells and carry out 2D seismic surveys on 650 sq km. The seismic surveys started in 2001 were completed and the locations of the three exploration wells determined on the basis of the data obtained. On West Abu Gharadig block the second exploration well North Raml-1 Updip was drilled in the first half of 2002, however, this

On West Abu Gharadig block the second exploration well North Raml-1 Updip was drilled in the first half of 2002, however, this well was unsuccessful. On the North Bahariya block 2D seismic was acquired.

By the end of 2002 INA concluded a licence agreement for the exploration on Ras El Ush block in the Suez area in which AGIP is the operator and INA has 25% share.

In Angola the Serra do Moco exploration well on block 22 did not discover expected oil reserves. According to the licence agreement INA was to drill another exploration well Serra da Leba, however, it was abandoned due to the failure to reach agreement with the national company Sonangol concerning location.

Exploration operations carried out in Syria during 2002 were particularly successful. Exploration wells Jihar-1 and Al Mahr-1 on the Hayan block discovered two large gas-condensate fields. The well Palmyra-1 encountered a gas field. By the end of November 2002 the drilling of the fourth exploration well Mrah-2 commenced which continued into 2003.

In addition to fulfilling its contractual commitments, INA continued to search for new prospects. An appraisal of exploration blocks in Egypt was carried out including the Western Desert area, the Mediterranean Sea, the Gulf of Suez and the Red Sea. The East Yidman block was appraised as the most prospective, and INA acquired data on the basis of which a feasibility study was undertaken for a possible licence acquisition. A proposal was submitted to NOC Cairo for a 50% share with INA as the operator. INA is conducting negotiations together with AGIP in respect of a number of other interesting blocks such as North East Geisum and West Sitra whereby AGIP would be the operator and INA would participate with a 25% interest.

Other prospects are under consideration including the block M8 within the Murzuq basin in Libya and block 9 in Sudan. Another block in Syria, block 10 to the north of the Hayan block,

Another block in Syria, block 10 to the north of the Hayan block, is also under review. The first appraisals of this block are very promising. INA has submitted a proposal for a licence acquisition. Negotiations have progressed well so far and it appears that an agreement will be signed in the near future by which INA will be the operator with a possibility to include other partners.

Oil and Gas Exploration and Production (con.)

INA Naftaplin (continued)

Portfolio of exploration and production interests abroad

	Country	Block	Share
Producing	Angola	Block 1	7.5%
	Angola	Block 3	5.0%
	Egypt	Abu el Gharadig	25.0%
	Egypt	Ras Qattara	25.0%
Exploration	Albania	Panaja	100.0%
	Egypt	West Abu Gharadig	
	Egypt	North Bahariya	20.0%
	Egypt	North East Desert	50.0%
	Syria	Hayan	100.0%

Development activities

During 2002 development activities focussed on enhancing recovery from existing oil and gas fields in order to alleviate natural decline in production volumes. The new development operations were undertaken with the aim of increasing reserves and accelerating recovery. In addition to field operations, several development studies have been started: the development of the Stari Gradac - Barcs Nyugat field, expansion of the existing underground gas storage Okoli, studies for 3 projects for the application of EOR (enhanced oil recovery) methods on three fields, modelling of the Đeletovci oil field and a study relating to a new underground gas storage Okoli-b2.

In total seven development wells were completed during the year. Among them was the Okoli 60 well within the scope of Underground Storage Upgrade project aimed at increasing maximum daily withdrawal capacity of the gas storage facility. This is extremely important for balancing storage operation during peak load in winter seasons. The second stage of this project will include re-use of former production wells Ok-23 and Ok-28 for injection and withdrawal of gas from the storage. The project will continue in 2003 when drilling of a new well Ok-59

The project will continue in 2003 when drilling of a new well Ok-59 H and reconstruction of above-ground storage equipment is to follow.

Out of remaining six development wells four are oil wells: Žu-277H, MB-51, Klo-171 and Jam-72 and two are gas wells: Kal-7R and Mol-31. In addition to the above wells completed during 2002, three other wells were started, one oil well Jag.49RH and two gas wells Mol-40 and Kal-14R.

Development operations on existing fields included fracturing on one production well and 34 layer enhancing operations.

The above workover operations and the new wells that have been put on stream will contribute to the increased daily production of gas by 305,500 m^3, 117 m^3 of condensate and 177 m^3 of oil.

In 2002 intensive preparations for the development of the North Adriatic gas fields as a priority project

North Adriatic

During 2002 various activities were carried out with the aim of preparing the necessary project documentation for the development of the Ika, Ida and Marica offshore gas fields and for the construction of infrastructure for gathering, acceptance and delivery of natural gas from both of the contract areas North Adriatic (including fields Ivana, Ika, Ida and Annamaria) and Aiza Laura area (comprising the Marica field).

Following the award of the EPC (engineering, procurement and construction) contract for the Marica production platform in November 2002, the construction of new production systems is underway.

An additional exploration well Annamaria 2 was drilled to provide further data on the reserves of the Annamaria field which extends on both sides of the median line (straddled field). The well discovered gas reserves in excess of expectations. The principles of unitization have been agreed with the Italian partner, while the definition of median line will be the subject of bilateral agreement between Italy and Croatia.

In order to ensure optimum production regime on the Ivana field

Oil and Gas Exploration and Production (con.)

INA Naftaplin (continued)

In order to ensure optimum production regime on the Ivana field and define the production potentials of the southern (undeveloped) part of the gas accumulation, 3D reservoir modelling has been performed. A fourth satellite platform Ivana C is planned to be constructed on this part of the field.

Due to lower abandonment pressure as a result of construction of Ivana K compression platform and good performance of the Ivana field (pressure vs produced volumes) the recoverable reserves are increased by 10%.

Investments in exploration and development in 2002

Description	Total		In Croatia		Abroad	
	HRK mil	US$ mil	HRK mil	US$ mil	HRK mil	US$ mil
0	1	2	3	4	5	6
A) Geological-geophysical services	17.24	2.43	-	-	17.24	2.43
B) Exploration works	335.22	47.34	24.13	3.41	311.09	43.93
C) Development works	220.35	31.17	182.54	25.78	38.18	5.39
TOTAL INVESTMENTS	**573.18**	**80.94**	**206.67**	**29.18**	**366.51**	**51.76**

Investments in exploration and development per BOE

			US$/BOE
INVESTMENTS in:	2001	2002	Index (2002/2001)
1. Exploration	0.69	2.34	339
2. Development	1.37	1.46	107
3. TOTAL	**2.06**	**3.80**	**185**

Exchange rate US$ = HRK 7.0816

The year 2002 was important for INA s gas business. From January 2002 the Gas Market Law came into effect and the liberalisation of the Croatian gas market commenced. In September 2002 the new tariff system was introduced with transparent tariffs for gas supply and transportation. At the same time the wholesale prices of gas increased boosting gas business revenues in the fourth quarter.

Gas Business

INA's gas business is organized in the Production Sector of the E&P Division (comprising production facilities, gas treatment plants, the ethane plant and underground gas storage) and the Commercial Department which is responsible for imports of natural gas, wholesale of natural gas to direct consumers and international trading.
In addition, the Commercial Department sells other E&P products: crude oil, LPG, ethane, geothermal water and water for industrial and domestic use.

Natural gas supply

Production of natural gas from domestic reserves (onshore and offshore) currently meets 60% of total Croatian gas demand, with the remainder imported from Russia.

INA gathers the gas from the Pannonian basin fields through a series of pipelines and gas measuring stations. The gas then enters the national gas transportation network, which is now operated by Plinacro, a former subsidiary company that was separated from the INA Group in February 2001. INA has concluded with Plinacro a long-term transportation agreement for providing transportation services until the end of 2004.

INA also operates the gas storage facility at Okoli, which has a capacity of 550 million cm.

Natural gas produced from the Ivana offshore field in the Adriatic is currently transported through Italy and Slovenia before entering the Croatian transportation network.

The Commercial Department is responsible for the execution of long-term contracts for import and transportation of natural gas from the Russian Federation. In 2002 INA imported 1.084 bcm of natural gas, transported to Croatia through Slovakia, Austria and Slovenia.

Oil and Gas Exploration and Production (con.)

INA Naftaplin (continued)

Wholesale of natural gas

During 2002 total sales of natural gas were 2.632 bcm.

In accordance with the new Gas Market Law INA supplies natural gas to two main groups of consumers: captive or tariff consumers and eligible consumers. Captive consumers are mainly local distribution companies and industrial consumers directly connected to the grid. Eligible customers are those whose annual consumption exceeds 100 mcm or those who have co-generation. They are entitled to select their gas supplier. Currently, INA has three eligible consumers: HEP (the Croatian electricity company) with power generation and co-generation and annual consumption of 700 mcm, Petrokemija Kutina, fertilizer plant with annual consumption of approximately 450 mcm and Pliva pharmaceutical company (co-generation) with annual consumption of approximately 15 mcm.

Higher gas prices and increased production volumes resulted in higher revenues generated by the gas business. In response it has become possible to commence the implementation of a number of large gas projects that were planned some time ago. The most significant is the development of the offshore gas fields in the northern Adriatic and the construction of a subsea pipeline and other facilities that will bring gas to the mainland. Total investment in this project is expected to amount to approximately US$ 350 million to be divided equally between the joint venture partners (ENI and INA).

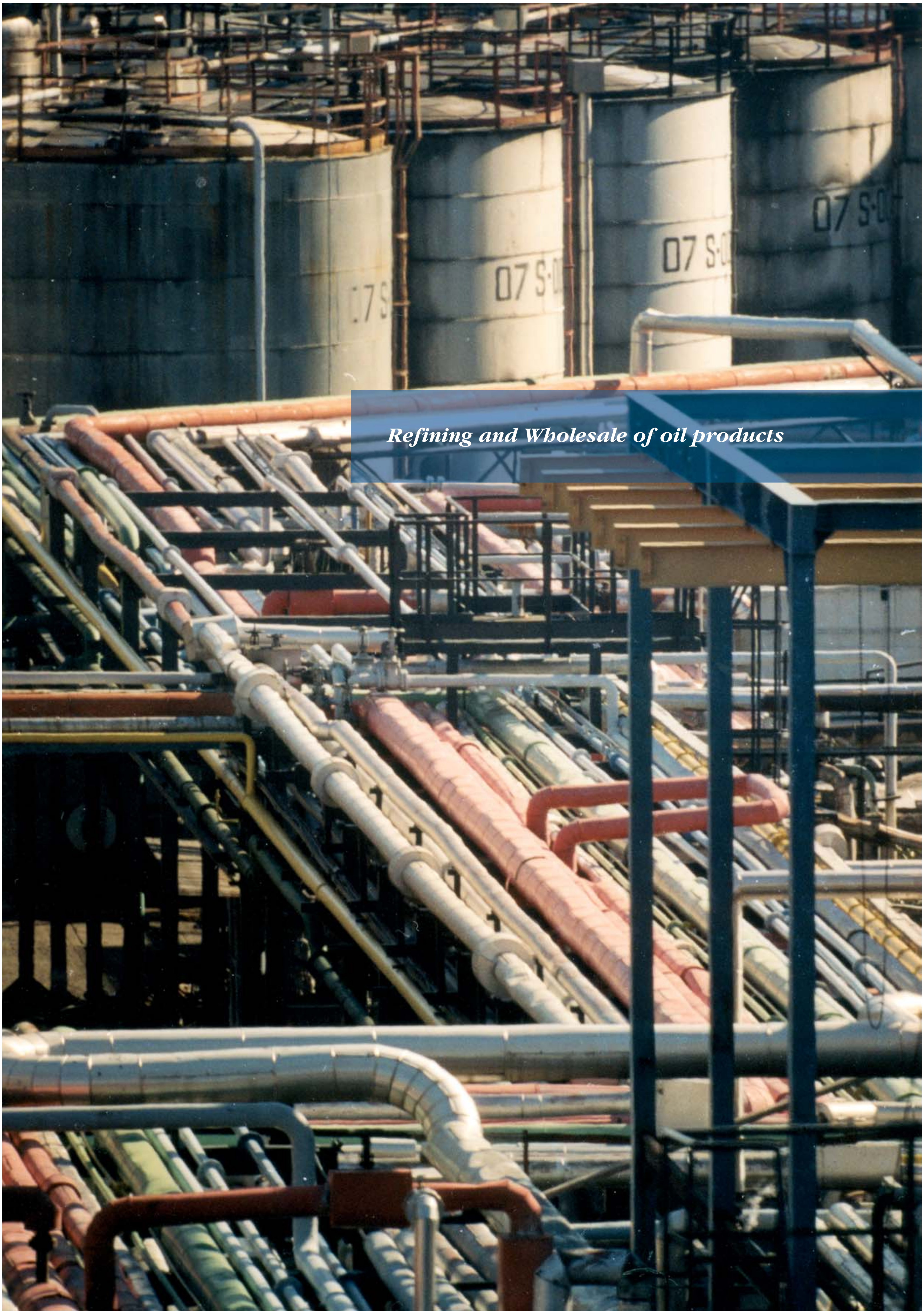
By implementation of this project INA expects joint production of over 4 mcm of gas per day. The total gas reserves of these offshore fields are estimated to be almost 20 bcm.

The fields should be on stream by the end of 2005 by which time the construction of underwater pipelines is also scheduled to be complete. Offshore gas will then be brought to the mainland near town of Pula, from where it will be further transported through the western regions of Croatia up to Karlovac where it would be connected to the existing network.

Karlovac where it would be connected to the existing network.

The pipeline system from Pula to Karlovac will be built by transportation company PLINACRO d.o.o. which is now fully state-owned.

Refining and Wholesale of oil products



Refining and Wholesale of oil products

Refining

Continuous growth of "white products" yield

Low refining margins had significant impact on INA's refining business in 2002. Total volume of refined products was lower than planned. In the context of weak refining margins the focus has been on sales of products to the neighbouring markets on which the most favourable sales terms could be achieved, while the exports to spot market were minimized.

In 2002 INA's refining activities were marked by further reduction of fixed and variable costs and intensive preparations for the new investment cycle related to modernization of both fuels refineries. In parallel with these principal projects, INA has worked intensively on the implementation of minor investments that enable increased production of derivatives in compliance with European quality standards.

Implementation of smaller revamp projects to enable production of higher volumes of European quality gasoline and diesel.

Preparations for large upgrading projects at the Rijeka Refinery initially with the Sisak refinery to follow.

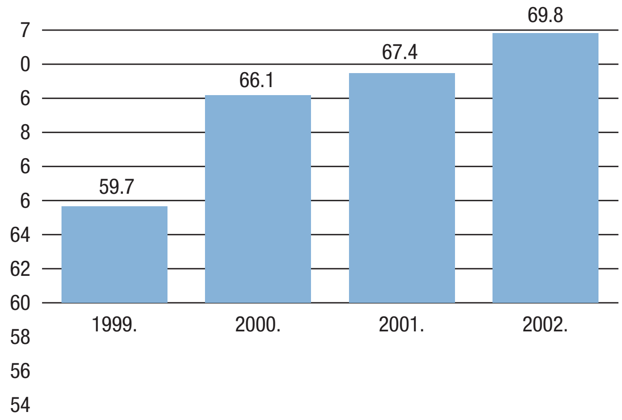
Thanks to such initiatives we have successfully met the challenges resulting from introduction of European quality standards in Bosnia and Herzegovina that came into effect by the end of 2002. INA is now able to meet the requirements of this market, and to cover increased demand for European quality derivatives in the domestic market.

In order to improve key parameters of product yield, particularly the yield of white products, the Rijeka refinery suspended deliveries of atmospheric residue to the Group's lubricant plant Maziva Rijeka which now imports almost the entire volume of atmospheric residue needed as a feedstock for lubricants production. As a result, the Rijeka refinery has decreased its yield of black products from 23 to 19%.

INA's refined product output in 2002 was as follows:

Derivatives	t/year
LPG	293,474
Virgin naphta	168,611
Gasoline	1,209,303
Gas oils	1,744,824
Fuel oils	798,490
Coke	55,118
Bitumen	188,426
Base oils	48,265
Motor oils	14,304
Industrial lubricants	3,382
Other	115,145
Internal consumption and losses	609,139
Total	**5,248,481**

Percentage of "white products" in total refining output



During 2002 the Sisak refinery increased the yield of high quality "white products" to 70.0%, while the share of heating oils production decreased to 12.2%.

In 2002 INA's fuels refineries processed in total 5.034 million tonnes of oil and other feedstock, together with the lubricant plant Maziva Rijeka the total volume processed was 5.248 million tonnes. The share of crude oil supplied from domestic reserves was 22% of total processed volumes. A proportion of imported oil came from Russia through the Druzba Adria pipeline for the Sisak refinery while the Rijeka refinery was supplied by crude from Russia and other sources through the Omišalj terminal. Great attention was paid to the quality of imported crude oil and balancing of high and low sulphur feedstock to optimise recovery of petroleum products.

Refining margins growth represents a key goal of refining operations and it is included in INA's refining strategy.

INA's strategic goal - upgrading of operational and financial efficiency of refining business

During 2002 INA invested HRK 105.9 million (US$ 13,469,000) in reconstruction and upgrading of processing plants. As a result we have increased the yield of quality products such as LPG, gasoline and diesel. The upgrading works included reconstruction of isomerisation, modernisation of gas oil HDS unit, revamp of catalytic reforming within the HDS unit and reconstruction of some infrastructural facilities. These activities marked the beginning of the new investment cycle focused on the modernisation of both fuels refineries in Rijeka and Sisak. The modernisation will be carried out in two stages and is expected to be completed in 2008 in line with INA's business plan for the period 2003-2007 and INA's strategy up the year 2013. A comprehensive modernisation programme includes construction of hydrocracking, new HDS units, hydrogen units and other. The value of investments is estimated to US$ 370 million.
The above investments will enable INA to produce derivatives in compliance with EURO III and IV standards and fules with ultra low sulphur content in line with the latest trends in the world.

Refining and Wholesale of oil products (cont.)

Wholesale

Wholesale's strategic goal - to become a reliable partner to our customers in Croatia and in neighbouring markets

A number of external events occurred during 2002 which had an adverse effect on INA's wholesale activities. These included a decrease in the customs tariffs, tariff-free import of oil derivatives from Hungary, new transportation regulations affecting the supply of markets in Slovenia and Bosnia and Herzegovina, and privatisation of Jugopetrol, Montenegro.

Due to lower customs tariffs INA adjusted its wholesale prices in response to the reduced cost of alternative sources of supply. As a result, ex refinery and wholesale prices were lower than in the previous year. Some border crossings on road routes toward Slovenia have been closed during the year and as a result transportation routes are longer. In this respect the competitive advantage of the Rijeka refinery is diminished, affecting sales volumes to the Slovenian market.
The privatisation of Jugopetrol and entry of Hellenic Petroleum to the Montenegro market affected INA's sales of derivatives to this market.
The derivatives market in Serbia is not liberalised but under direct government control and INA was not able to achieve its planned sales volumes in this market.

In such circumstances the key objective of INA's wholesale activity was to maintain market share in the domestic market, to export to Bosnia and Herzegovina and also to penetrate the Albanian market which has been achieved with considerable success.

In 2002 INA's wholesale volumes sold into the domestic market were at similar levels to the previous year, while exports to Bosnia and Herzegovina increased by 30% with respect to 2001. INA's exports to the markets of Italy, Hungary, Serbia and the Mediterranean were slightly above 700,000 tonnes, mostly represented by higher quality products such as LPG, virgin naphta and motor gasolines.

Sales volumes in 2002

Main markets	000 tonnes
Croatia	2,966
Slovenia	184
B&H	596
Montenegro	163
Serbia	86
Other markets	607
Total	**4,602**

Retail bussines

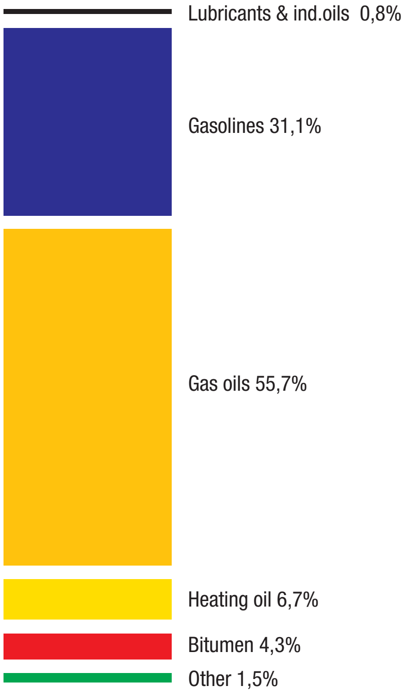
Retail business

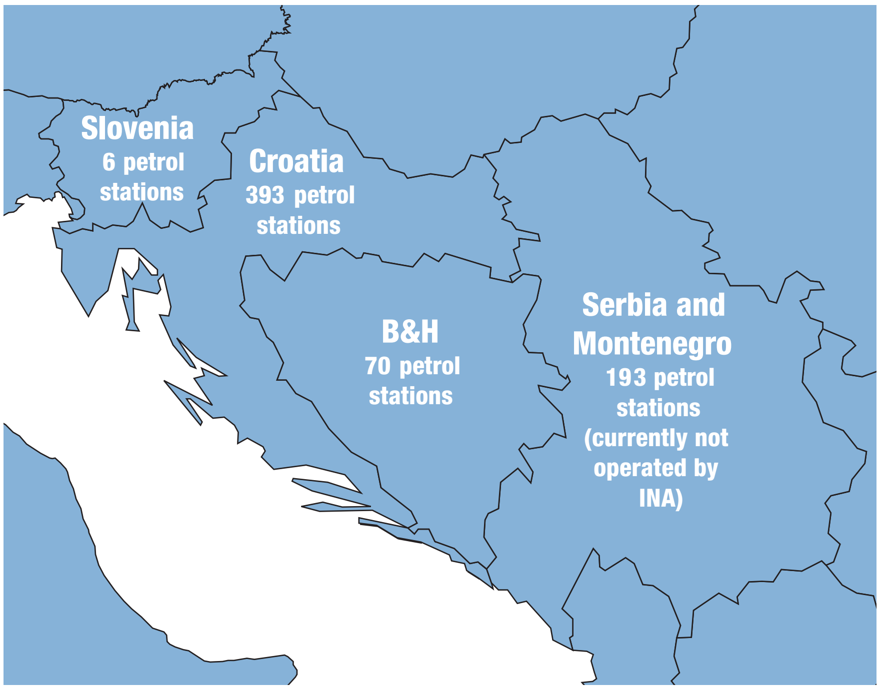
Retail sales volumes similar to 2001, however the financial performance improved as a result of higher margins and reduced costs

INA's domestic retail segment is responsible for procurement, transportation, storage, bulk sale and retail of oil products and consumer goods on the Croatian market. The retail business is organised in 5 business centres spread geographically so as to cover the entire territory of Croatia, subdivided into 16 business units. Their role is to coordinate and provide support to the network of 393 petrol stations owned and operated by INA. In addition there are 30 other
retail points such as terminals and retail facilities.

During 2002 total Retail sales on the Croatian market were 2.17 million tonnes of oil products. These sales volumes included bulk sales (approximately 1 million tonnes) as well as retail (1.17 million tonnes).
Fuel sales account for 87% of total sales and non-fuel 13% (relating principally to sales of LPG, lubricants and similar products and consumer goods).

Breakdown of
sales per product:





Shops sited on service stations offer to consumers over 1,500 items of various consumer goods. In 2002 the turnover of such goods was HRK 360.4 million net of VAT, or 14% higher than in 2001.

Our activities include logistics. Transportation is carried out by road tankers out of which about 30% by INA's own road tankers and 70% by contractors. This represents a significant increase compared to 2001 (19%) and reflects rationalisations in the area of logistics and better utilisation of INA's assets. On main transportation routes the truck fleet covered 8.5 million km and transported 1.8 million m^3 of products.

Technology improvements have enabled better supply and cost management

The systems of fuel measurement employed during the unloading of truck tankers have been improved through installation of temperature compensators and air separators on tankers. In addition, during 2002 level measuring systems were installed in storage tanks at about seventy petrol stations. The system provides accurate information on fuels level in the tanks and enables improved stock control and supply management. The instalment of level measuring systems will continue in 2003 on other petrol stations.

The number of retail sites linked to the corporate IT system has grown to 370. It is expected that in 2003 all petrol stations will be linked to the central IT system and more stations will benefit from computerised back offices. Computerised operations enable easier monitoring of flow of products and accounting data.

The implementation of a comprehensive quality management system introduced in 2001 has continued. Particular attention has been given to improvement of services on retail sites and customer satisfaction. In order to understand better our customers' needs, we have carried out several research projects, analysed complaints and suggestions and undertaken corrective actions.

In addition, we are making efforts to inform our customers about new products and services and various promotional activities. Our web site has become an increasingly useful tool for providing our customers with various information regarding retail outlets. There is also a toll free telephone number through which we are in direct communication with our customers. Their comments and complaints provide
valuable inputs for further improvement of our services.

Retail business (continued)

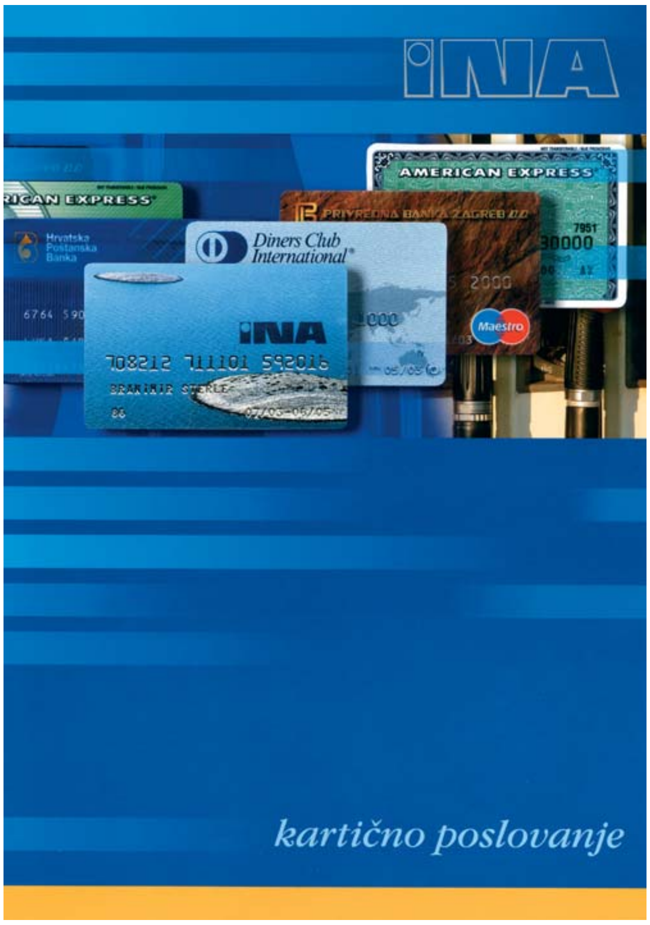
Increased share of INA card sales

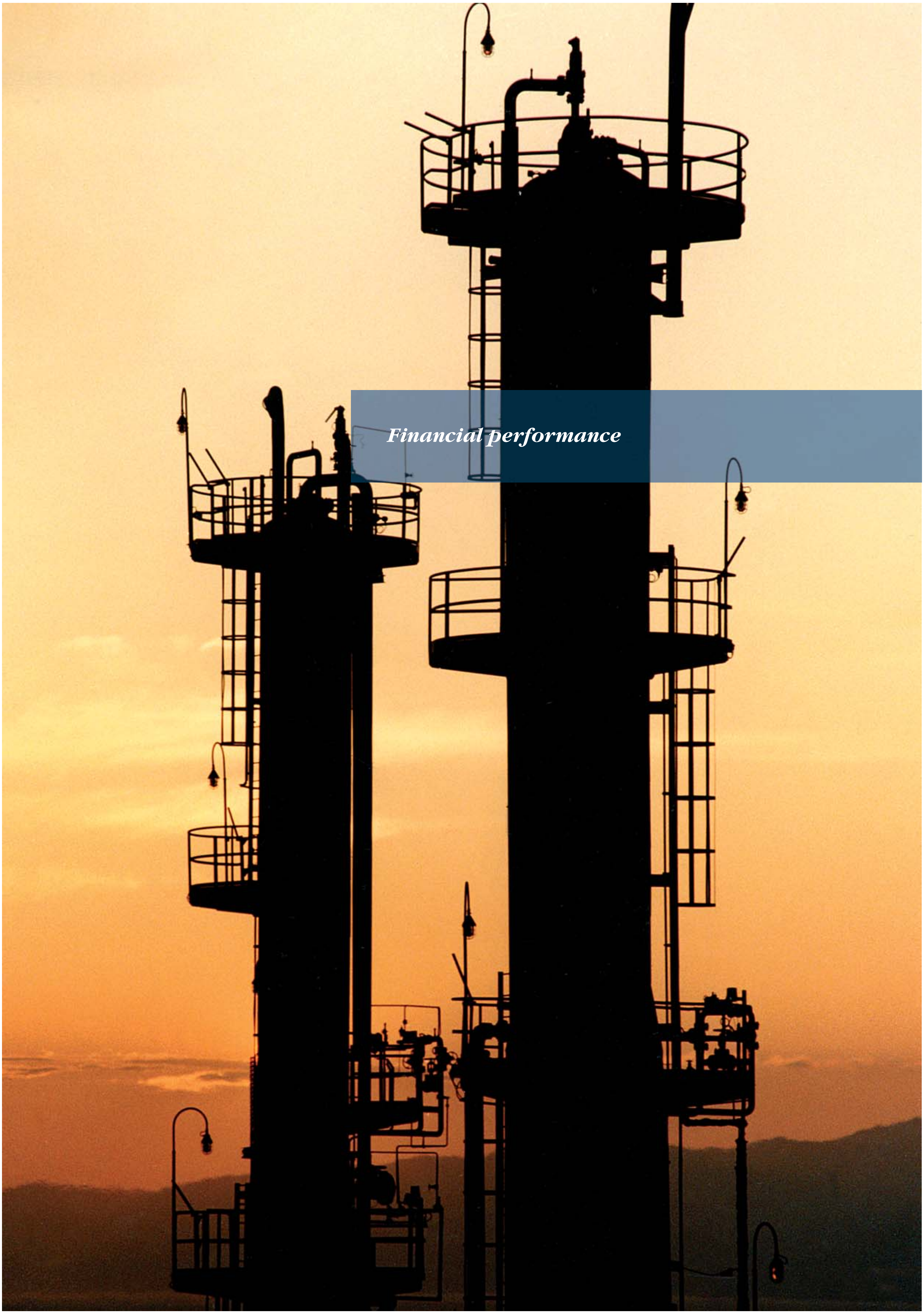
The INA card, first introduced in 1997, is now well established with some 140,000 cards issued. Numerous Croatian companies use INA's card for payment of fuel for their company vehicles, and the data base of our card holding customers helps us to respond better to their needs. INA card transactions currently represent 55% of total transactions on other well known credit cards. In early 2003 the INA's card visual identity has been refreshed and technology improvements that will enable easier switch to smart card application have been introduced.

A number of initiatives have been undertaken in the Retail segment in order to improve overall efficiency, which have included reengineering of business processes and decentralisation of decision-making. This allows our people the freedom to make timely operational decisions based on their knowledge of the local market.

In 2002 significant steps have been made in the area of environmental protection. Almost all retail facilities have been surveyed in order to establish their level of compliance with environmental requirements and regulations and the results are included in a data base which is continuously updated. This information will provide a basis for planning further activities and investments in environmental protection.
During 2002 a majority of INA's petrol stations held valid water environmental licences which certify their compliance with effective Croatian environmental regulations.

In the human resources area training programmes have been implemented for various categories of employees to improve the skills of our people and our responsiveness to our customers' requirements.





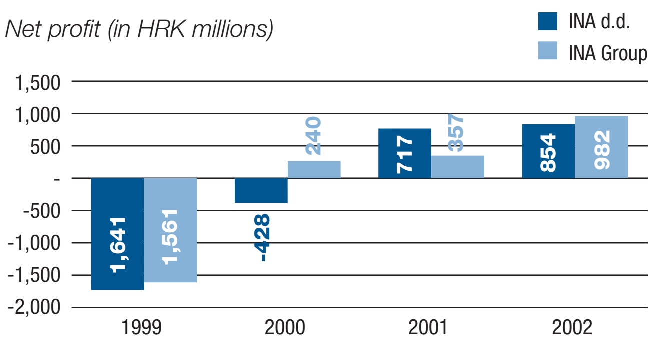
Financial performance

Financial performance

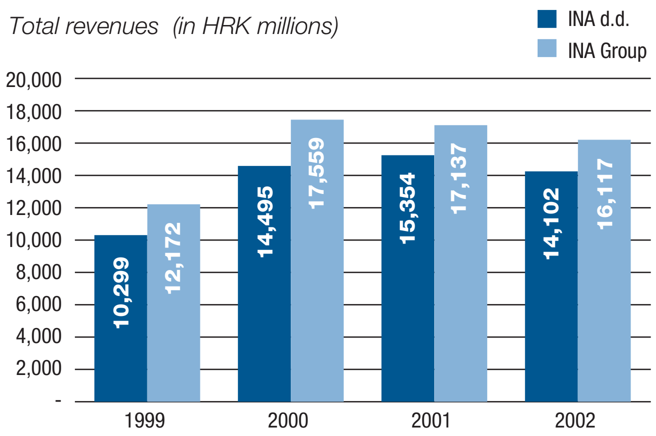
In 2002 INA Group recorded a net profit of HRK 982 million (US$125 million), an increase of HRK 624 million (US$ 82 million) compared to 2001. The Group's charge to profit tax amounted to HRK 16 million, which substantially related to the Group's subsidiaries in Croatia and abroad, as INA d.d, the parent company, is not currently subject to payment of corporate tax as a result of tax losses available from previous years.

In 2002 INA d.d., the parent company, generated a net profit of HRK 854 million (US$ 109 million), compared to HRK 717 million (US$ 86 million) recorded in 2001. Net profit generated by INA's subsidiaries in Croatia was HRK 61 million which is an increase of 9% compared to previous year, while the profit recorded by INA's subsidiaries abroad decreased from HRK 66 million to HRK 41 million.

Net profit (in HRK millions)



Total revenues (in HRK millions)



The INA Group's profit of HRK 995 million before tax included HRK 786 million from operating activities (2001 - HRK 737 million). From financing activities INA Group recorded a net gain of HRK 209 million (2001 - charge of HRK 375 million).

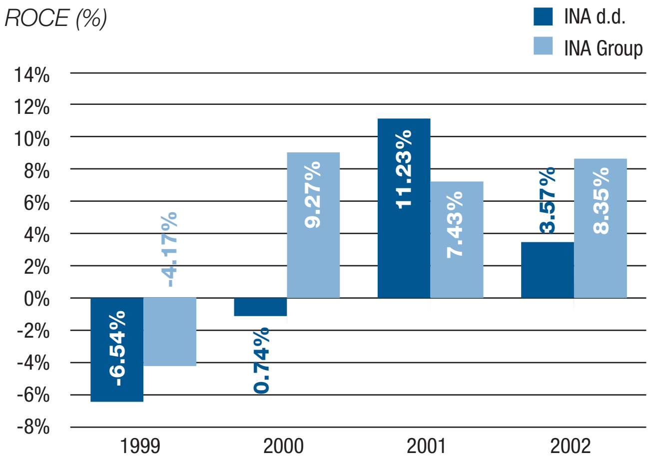
The financial performance of INA Group was affected by the following factors:

- Lower total operating income than in 2001 as a result of declining margins over time as the premium which INA was able to command over Platt's prices eroded due to competition in the Croatian domestic market and import tariff reductions.

- Introduction of a new gas tariff system by which the prices of natural gas charged by INA to tariff customers have increased; and

- The effect of the following gains recorded in 2002:

	INA d.d. HRK millions	INA Group HRK millions
- Gain on Plinacro disposal	-	388
- Plinacro dividend	90	-
- Disposal of White Nights and intercompany dividend	188	22
- IAS 39 gain	144	144
- Foreign exchange gains	358	469



Liquidity and solvency

At 31 December 2002 INA Group's total assets amounted HRK 14.4 billion of which non-current assets accounted for 61%. During 2002 INA Group increased the value of net assets by HRK 877 million and at 31 December 2002 the value of net assets was HRK 8 billion.

During 2002 INA disposed its subsidiary Plinacro d.o.o. and a 21.37% equity interest in JANAF d.d. to the Croatian Government in consideration for the assumption by the Government of long term loans payable to the London and Paris Clubs of US$ 172 million (HRK 1,438 million), whereby INA also restructured its external debt (long-term + short term - cash). As a result, at 31 December 2002 INA Group's net debt decreased by HRK 1,400 million and amounted to HRK 1,393 million so that net gearing (net debt / net debt + capital
and reserves) decreased from 27.81% to 14.77%.

External debt

At 31 December 2001 INA Group had external debt of HRK 1.8 billion of which HRK 311 million becomes due in 2002. During 2002 INA repaid HRK 761 million of credit principal.

INA d.d.'s external debt at 31 December 2002 amounted HRK 1.5 billion of whch HRK 282 million relates to principal due for repayment during 2003. In 2002 INA repaid HRK 733 million of loan principal.

Cash flow

In 2002 INA Group increased net cash by HRK 56 million to a level more than twice that in 2001.

Investments in non-current assets amounted HRK 1.3 billion.

	2002 HRK millions	2001 HRK millions
operating activities	1,065	2,130
investing activities	(1,042)	(690)
financing activities	33	(1,414)
Net cash increase/decrease	**56**	**26**

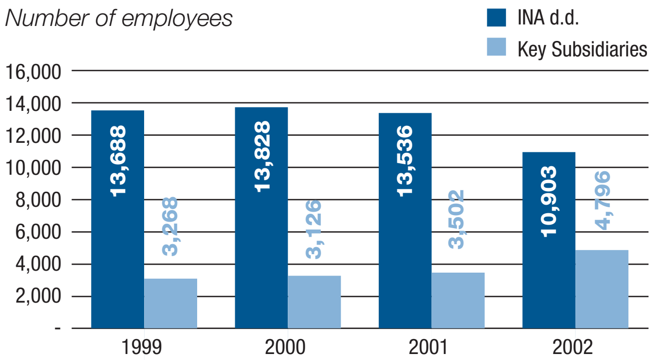
Financial performance (continued)

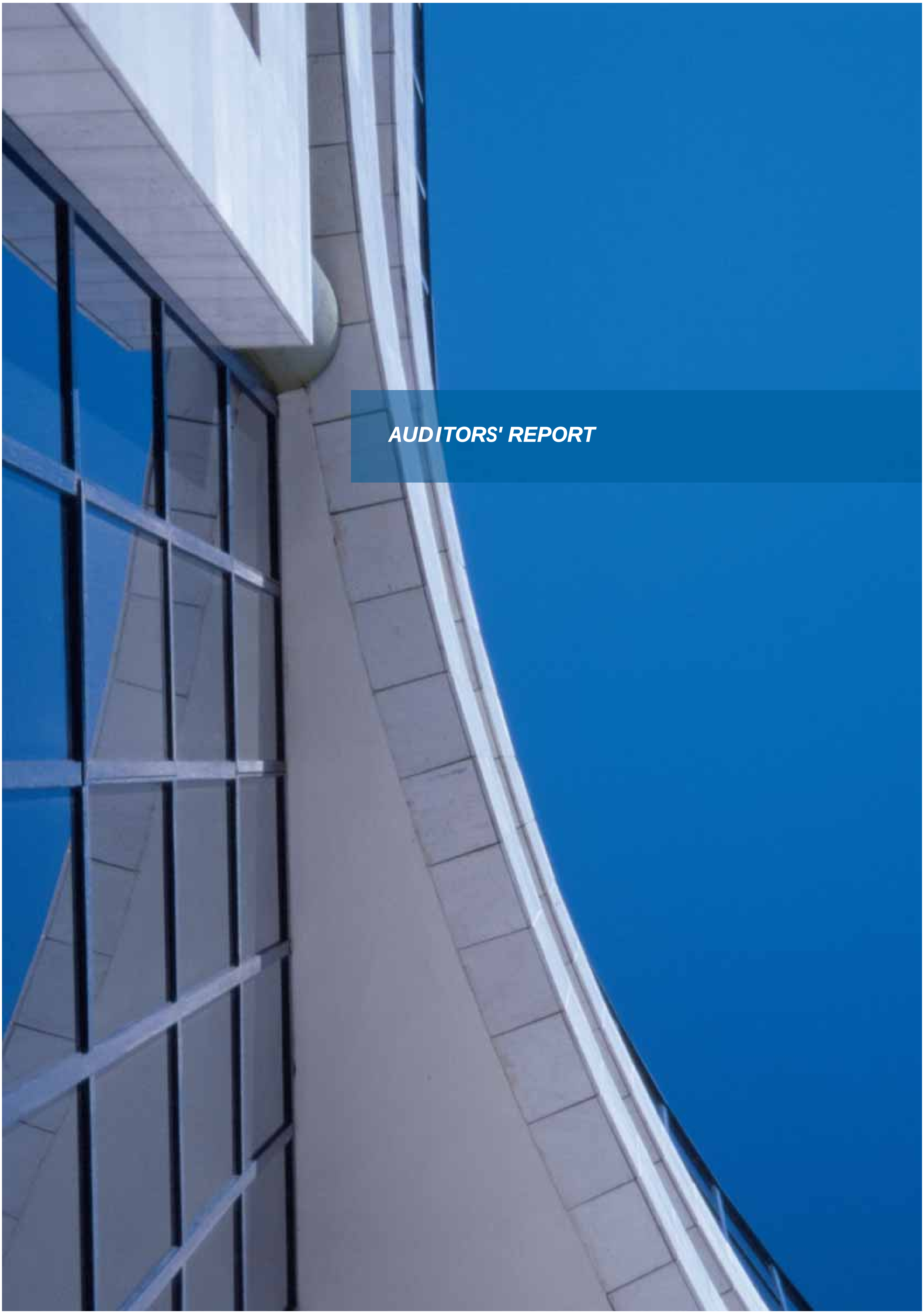
Taxes

INA d.d. is subject to payment of three types of taxes:

- special tax on petroleum products (excise tax) of which INA d.d paid in 2002 a total amount of HRK 2.9 billion;
- value added tax of which INA paid HRK 2.6 billion;
- INA d.d. is currently not subject to payment of corporate tax as a result of tax losses available from previous years.

Number of employees





AUDITORS' REPORT

Contents

Responsibility for the financial statements

Pursuant to the Croatian Accounting Law (90/92), 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 company and the group for that period.

After making enquiries, the Board has a reasonable expectation that the company and group have 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 company and 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 company and the group and must also ensure that the financial statements comply with the Croatian Accounting Law (90/92). The Board is also responsible for safeguarding the assets of the company and group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

29 March 2003

Independent auditors' report

To the Shareholder of INA - Industrija Nafte d.d. Zagreb:

We have audited the financial statements of INA - Industrija Nafte d.d. Zagreb (the company) and its subsidiaries (together, the group) for the year ended 31 December 2002 which comprise the balance sheets, statements of income, and statements of cash flows of the company and the group and the related notes as numbered 1 to 27. The financial statements have been prepared in accordance with International Financial Reporting Standards, as published by the International Accounting Standards Board, as required by Croatian accounting law, under the accounting policies set out therein.

Respective responsibilities of the Management Board and auditors

As described on page 47, these financial statements are the responsibility of the company's Management Board. Our responsibility is to express an independent opinion on these financial statements based on our audit.

Basis of opinion

We conducted our audit of the financial statements of the company and the group in accordance with International Standards on Auditing. Those standards require that we plan and perform our audit so as to obtain all the information and explanations, which we consider necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by executive management as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

The financial statements of the Company and the Group for the year ended 31 December 2001 were audited by another auditor whose report dated 3 May 2002, expressed an unqualified opinion on those statements.

Opinion

In our opinion the financial statements give a true and fair view of the financial position of the company and of the group as at 31 December 2002 and of the results of their operations, cash flows and changes in equity for the year then ended and have been prepared in accordance with International Financial Reporting Standards and the requirements of the Croatian Accounting Law (90/92).

Emphasis of matter

Carrying value of refining and wholesale fixed assets
Without qualifying our opinion, we draw attention to note 8 IV) concerning the carrying values of the company's and the group's refining and wholesale fixed assets. At 31 December 2002, the net book values of these fixed assets were HRK 1,598 million and HRK 1,759 million for the company and the group respectively.

The recoverability of these refining and wholesale fixed assets is ultimately dependent upon the future profitability of these businesses. In 2001, the Ministry of Economy announced the appointment of a consortium of advisers to advise on the reform of Croatia's oil and gas sector including reviewing the strategic options for INA and its constituent businesses. During 2002, the Government published a tender for the sale of up to 25 % plus one share of the Company to a strategic investor. Bids have subsequently been submitted by a number of interested parties. However, no decision has yet been made concerning the partial privatisation of the company and the restructuring of the sector. Whilst the Management Board is of the view that consideration should be given to assessing the carrying values of the company's and group's refining and wholesale assets in accordance with the requirements of International Accounting Standard 36 'Impairment of Assets', the Board has concluded that macroeconomic and environmental policy, together with related factors which are fundamental to the future profitability of the group's refining and wholesale business, remain uncertain. Consequently, the existence and extent of any impairment in the carrying values of the company's and group's refining and wholesale fixed assets is also uncertain, pending the outcome of the Government's privatisation process, and the review of the oil and gas sector.

In the context of these considerations, the Board has concluded that it is not currently possible to determine with any certainty whether, or the extent to which, any provision against the carrying values of the company's and the group's refining and wholesale fixed assets is required. The effects of any impairment will be reported in the company's and group's future financial statements as it becomes known and estimable.

Deloitte & Touche

Deloitte & Touche

Zagreb, 18 October 2002

Zagreb, 29 March 2003

Consolidated INA Group income statement

For the year ended 31 December 2002	Notes	2002 INA Group HRK millions	2001 INA Group HRK millions
Sales income	1		
a) domestic		9,730	10,779
b) exports		4,349	5,343
Own costs capitalised	8b	417	186
Other income		905	520
Total operating income		15,401	16,828
Cost of raw materials and consumables		(6,829)	(7,240)
Depreciation, depletion and amortisation	2	(889)	(1,105)
Other material costs		(1,590)	(1,459)
Non-material costs		(911)	(935)
Staff costs			
a) Wages and salaries	3	(908)	(954)
b) Pensions, health insurance and other payroll costs	3	(899)	(836)
Cost of other goods for resale		(2,054)	(2,452)
Current and non-current asset adjustments		(477)	(778)
Provisions for charges and risks		(229)	(58)
Changes in inventories of finished goods and work in progress		171	(274)
Total operating costs		(14,615)	(16,091)
Operating profit		786	737
Financial income	4	716	308
Financial expense	5	(507)	(683)
Net profit (loss) from financial activities		209	(375)
Profit on ordinary activities before taxation		995	362
Taxation	6	(16)	(9)
Profit on ordinary activities after taxation		979	353
Minority interests	23	3	5
Profit for the year		982	358

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

INA Matica company income statement

For the year ended 31 December 2002	Notes	2002 INA Matica HRK millions	2001 INA Matica HRK millions
Sales income	1		
a) Domestic		9,564	10,597
b) Exports		3,188	3,513
Own costs capitalised	8b	23	49
Other income			
a) Transfer of assets to subsidiary	9	34	443
b) Other		427	508
Total operating income		13,236	15,110
Cost of raw materials and consumables		(6,353)	(6,895)
Depreciation, depletion and amortisation	2	(725)	(766)
Other material costs		(1,454)	(1,376)
Non-material costs		(732)	(624)
Staff costs			
a) Wages and salaries	3	(616)	(734)
b) Pensions, health insurance and other payroll costs	3	(599)	(628)
Cost of other goods for resale		(2,068)	(2,044)
Current and non-current asset adjustments		(378)	(725)
Provisions for charges and risks		(186)	(34)
Changes in inventories of finished goods and work in progress		173	(274)
Total operating costs		(12,938)	(14,100)
Operating profit		298	1,010
Financial income	4	865	244
Financial expense	5	(309)	(537)
Net profit (loss) from financial activities		556	(293)
Profit on ordinary activities before taxation		854	717
Taxation	6	-	-
Profit for the year		854	717

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

Consolidated INA Group balance sheet

31 December 2002	Notes		2002 INA Group HRK millions		2001 INA Group HRK millions
ASSETS					
B. Non-current assets					
Intangible fixed assets	7		351		200
Tangible fixed assets	8		7,621		8,560
Investments in associate and other companies	10		531		1,087
Long term receivables	11		257		285
Total non-current assets			8,760		10,132
C. Current assets					
Inventories	12		2,407		1,966
Trade receivables, net		1,832		1,556	
Other receivables		239		265	
Total receivables			2,071		1,821
Investments			261		103
Cash at bank and in hand			831		821
Total current assets			5,570		4,711
D. Prepayments and accrued income			32		31
F. TOTAL ASSETS			14,362		14,874

For the year ended 31 December 2002	Notes		2002 INA Group HRK millions		2001 INA Group HRK millions
EQUITY AND LIABILITIES					
A. Capital and reserves					
Paid-up share capital	20		9,000		9,000
Other reserves	21	2,477		2,579	
Reserves			2,477		2,579
Retained losses brought forward			(4,413)		(4,771)
Profit for the year			982		358
Equity			8,046		7,166
Minority interests	23		(2)		1
Total capital employed			8,044		7,167
B. Long term provisions	19		1,004		951
C. Non-current liabilities					
Long term loans	17	1,462		1,922	
Other non-current liabilities	18	226		323	
Total non-current liabilities			1,688		2,245
D. Current liabilities					
Bank loans and overdrafts	14	762		1,660	
Income tax payable		-		29	
Accounts payable and other short term liabilities	15	2,510		2,441	
Total current liabilities			3,272		4,130
E. Accruals and deferred income	16		354		381
TOTAL LIABILITIES			6,318		7,707
F. TOTAL EQUITY AND LIABILITIES			14,362		14,874

Signed on behalf of the group on 29 March 2003:

T. DragiËeviÊ

M. UjeviÊ

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

INA Matica company balance sheet

31 December 2002	Notes		2002 INA Group HRK millions		2001 INA Group HRK millions
ASSETS					
B. Non-current assets					
Intangible fixed assets	7		339		182
Tangible fixed assets	8		6,165		6,655
Investments in subsidiaries	9	841		1,352	
Investments in associate and other companies	10	435		1,005	
Total investments			1,276		2,357
Long term receivables	11		541		425
Total non-current assets			8,321		9,619
C. Current assets					
Inventories	12		2,153		1,849
Intercompany receivables		502		231	
Trade receivables, net	13	1,344		1,276	
Other receivables		182		135	
Total receivables			2,028		1,642
Investments			275		103
Cash at bank and in hand			371		312
Total current assets			4,827		3,906
D. Prepayments and accrued income			18		14
F. TOTAL ASSETS			13,166		13,539

31 December 2002	Notes		2002 INA Group HRK millions		2001 INA Group HRK millions
EQUITY AND LIABILITIES					
A. Capital and reserves					
Paid-up share capital	20		9,000		9,000
Other reserves	21	1,951		1,951	
Reserves			1,951		1,951
Retained losses brought forward			(4,620)		(5,337)
Profit for the year			854		717
Equity			7,185		6,331
B. Long term provisions	19		964		878
C. Non-current liabilities					
Long term loans	17	1,238		1,874	
Other non-current liabilities	18	212		222	
Total non-current liabilities			1,450		2,096
D. Current liabilities					
Intercompany payables		1,590		1,289	
Bank loans and overdrafts	14	289		1,091	
Accounts payable and other short term liabilities	15	1,432		1,592	
Total current liabilities			3,311		3,972
E. Accruals and deferred income	16		256		262
TOTAL LIABILITIES			5,981		7,208
F. TOTAL EQUITY AND LIABILITIES			13,166		13,539

Signed on behalf of the group on 29 March 2003:

T. DragiËeviÊ

M. UjeviÊ

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

Consolidated INA Group cash flow statement

For the year ended 31 December 2002	Notes	2002 INA Group HRK millions	2001 INA Group HRK millions
Net cash inflow from operating activities			
Operating profit		786	737
Depreciation, depletion and amortisation		889	1,105
Current and non-current asset adjustments		477	778
(Increase) / decrease in inventories		(457)	166
(Increase) / decrease in receivables and prepayments		(194)	941
(Increase) in payables and accruals		(103)	(1,509)
Provision for charges and risks		116	(56)
Profit from sale of subsidiaries		(410)	-
Other non-cash items		(26)	(23)
Taxes paid		(13)	(9)
Net cash inflow from operating activities		1,065	2,130
Cash flows used in investing activities			
Purchase of non-current assets		(1,331)	(781)
Proceeds from sale of non-current assets		6	3
Proceeds from sale of subsidiary		288	18
Purchase of investments		(2)	(1)
Dividends received		21	-
Interest received		21	11
Investments and loans to third parties, net		(45)	60
Net cash (outflow) from investing activities		(1,042)	(690)
Cash flows from financing activities			
Additional long term borrowings	17	1,372	180
Repayment of long term borrowings	17	(761)	(993)
Net (repayment) of short term borrowings		(399)	(175)
Interest paid on long term loans		(87)	(245)
Other long term liabilities, net		(10)	(53)
Interest paid on short term loans and other financing charges		(82)	(128)
Net cash inflow (outflow) from financing activities		33	(1,414)
Net increase in cash and cash equivalents		56	26

Analysis of changes in cash and cash equivalents	HRK millions
At 1 January 2002	821
Foreign exchange movements	(46)
Net cash inflow	56
At 31 December 2002	831

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

INA Matica company cash flow statement

For the year ended 31 December 2002	Notes	2002 INA Group HRK millions	2001 INA Group HRK millions
Operating profit		298	1,010
Depreciation charges		725	766
Current and non-current asset adjustments		378	725
Decrease / (Increase) in inventories		(520)	109
Decrease / (Increase) in receivables and prepayments		(321)	800
Increase / (decrease) in payables and accruals		21	(1,620)
Provision for charges and risks		172	(50)
Gain on asset transfer to a subsidiary		(34)	(443)
Other non-cash items		(10)	(45)
Net cash inflow from operating activities		709	1,252
Cash flows used in investing activities			
Purchase of non-current assets		(930)	(374)
Proceeds from sale of non-current assets		4	5
(Purchase) of investments / receipts from sale of investment		(50)	5
Dividends received		286	-
Interest received		26	13
Investments and loans to third parties, net		(1)	70
Net cash inflow (outflow) from investing activities		(665)	(281)
Cash flows from financing activities			
Additional long-term borrowings	17	1,157	124
Repayment of long term borrowings	17	(733)	(966)
Net (repayment) / drawdown of short term borrowings		(278)	224
Interest paid on long term loans		(84)	(210)
Other long term liabilities		(10)	(53)
Interest paid on short term loans and other financing charges		(37)	(57)
Net cash inflow / (outflow) from financing activities		15	(938)
Net increase in cash and cash equivalents		59	33

Analysis of changes in cash and cash equivalents	INA Matica HRK millions
At 1 January 2002	312
Net cash inflow	59
At 31 December 2002	371

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

Consolidated INA Group statement of changes in equity

For the year ended 31 December 2002

(HRK milions)

	Note	Share capital	Reserves	Retained loss brought forward	Profit for the year	Total
At 31 December 2000		8,687	2,869	(5,069)	240	6,727
Effect of adoption of IAS 39 ‘Financial Instruments: Recognition and Measurement’		-	-	58	-	58
Exchange differences on translation of the financial statements of foreign entities		-	23	-	-	23
Registration of share capital		313	(313)	-	-	-
Allocation of the profit for the year to accumulated losses		-	-	240	(240)	-
Net profit for the year		-	-	-	358	358
At 31 December 2001		9,000	2,579	(4,771)	358	7,166
Exchange differences on translation of the financial statements of foreign entities	21	-	(102)	-	-	(102)
Allocation of the profit for the year to accumulated losses		-	-	358	(358)	-
Net profit for the year		-	-	-	982	982
At 31 December 2002		9,000	2,477	(4,413)	982	8,046

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

INA Matica company statement of changes in equity

For the year ended 31 December 2002

(HRK milions)

	Share capital	Reserves	Retained loss brought forward	Profit for the year	Total
At 31 December 2000	8,687	2,264	(4,967)	(428)	5,556
Effect of adoption of IAS 39 ‘Financial Instruments: Recognition and Measurement’	-	-	58	-	58
Registration of share capital	313	(313)	-	-	-
Allocation of the loss for the year to accumulated losses	-	-	(428)	428	-
Net profit for the year	-	-	-	717	717
At 31 December 2001	9,000	1,951	(5,337)	717	6,331
Allocation of the profit for the year to accumulated losses	-	-	717	(717)	-
Net profit for the year	-	-	-	854	854
At 31 December 2002	9,000	1,951	(4,620)	854	7,185

The accompanying accounting policies and notes are an integral part of this statement of changes in equity.

Accounting policies

31 December 2002

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.

a) 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 in accordance with Croatian law.

b) Basis of company (INA Matica) financial statements

The company's financial statements represent the aggregation of the assets and liabilities at 31 December 2002 and of the results for the year then ended of the divisions which comprise the company, as detailed in note 9. All significant inter-divisional transactions and balances are eliminated.

c) Basis of consolidated (INA Group) financial statements

The consolidated financial statements of the Group include INA d.d. (INA Matica) and the companies that it controls. This control is normally evidenced when the Group owns, either directly or indirectly, more than 50 % of the voting rights of a company's share capital and is able to govern the financial and operating policies of an enterprise so as to benefit from its activities. The results of material subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed. All significant intra-group transactions and balances are eliminated. Minority interests include their proportion of the assets and liabilities consolidated.

d) Reporting currency

The company's and group's financial statements are prepared in Croatian Kuna (HRK). The effective exchange rate of the Croatian currency (expressed in Kuna) at 31 December 2002 was 7.4423 Kuna per 1 EUR and 7.1457 Kuna per 1 United States Dollar (31 December 2001 - 7.3700 Kuna per 1 EUR and 8.3560 Kuna per 1 United States Dollar). The income statements of INA Group and INA Matica for the years ended 31 December 2002 and 2001 translated (unaudited) into United States Dollars at average exchange rates are included as Appendices 1 and 2 to these financial statements respectively. The balance sheets of INA Group and INA Matica at 31 December 2002 and 2001 translated (unaudited) into United States Dollars at year end exchange rates are included as Appendices 3 and 4 to these financial statements respectively.

e) Investments in subsidiaries

In the company's financial statements, investments in subsidiaries are stated at cost or valuation, less provisions for impairment in value. Dividends received and receivable are credited to the company's income statement.

f) Investments in associate and other non-consolidated companies

Associate companies are entities in which a consolidated member of the group has both a participating interest of less than 50% and in which it participates in operating and financial policy decisions. They do not include subsidiaries, jointly controlled entities or other joint ventures.

Jointly controlled entities are entities where control is shared with other parties through contractual arrangements. In the group accounts, investments in material associates and jointly controlled entities are accounted for using the equity method. The consolidated income statement includes both the group's share of associates' profits less losses and the amortisation of any related goodwill in the year while the group's share of the net assets of associates is shown in the consolidated balance sheet, adjusted for any related

unamortised goodwill.
Investments in immaterial associate companies and jointly controlled entities, together with investments in other non-consolidated companies, are generally recorded at cost less provisions for any impairment.

The company's proportion of development expenditure incurred through exploration and production joint venture arrangements is included within tangible fixed assets - oil and gas properties of the company.

g) Oil and gas properties

i) Exploration and appraisal costs
Exploration and appraisal costs are accounted for on the successful efforts basis.
Costs relating to licence and data acquisition, geological and geophysical activity and 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.
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 tangible oil and gas assets. The status of such prospects is reviewed regularly by management.
Prior to 1 January 1993, exploration and appraisal costs were generally expensed as incurred and, accordingly, these costs are not included in the net book value of oil and gas assets which are currently under development or in production.

ii) Fields under development
All field development costs are capitalised as tangible oil and gas assets. Prior to 1 January 1993, such costs comprised the acquisition and installation of tangible plant, equipment and facilities for future production purposes. Effective 1 January 1993, such costs also include, prospectively, applicable exploration costs and development drilling costs.

iii) Depreciation
Capitalised exploration and development costs of producing domestic and foreign fields 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.

iv) Commercial reserves
Commercial reserves are net proven 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.

h) Tangible fixed assets
Tangible fixed assets are shown at historical cost or valuation less accumulated depreciation and any accumulated impairment loss. No provision is made for depreciation of freehold land. Other fixed assets in use (excluding oil and gas properties) are depreciated on a straight-line basis at rates varying from 2% to 33% per annum as shown below.

Buildings	Up to 50 years
Plant and machinery	5-20 years
Vehicles and transport	3-10 years
Office equipment	3-5 years

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 the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to income 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.

Accounting policies (continued)

i) Impairment of assets

Tangible fixed assets and investments 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. The recoverable amount is the higher of an asset's net selling price and its value in use. 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 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.

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 fixed assets, are assessed for impairment in accordance with accounting policy (g) (i). In the case of refining and marketing assets, the cash generating unit is the refining and marketing network.
Specific matters relating to the possibility of impairment of refining and marketing assets are explained in note 8(iv).

j) Finance leases

The company recognises finance leases as assets and liabilities in the balance sheet at amounts equal at the inception of the lease to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. In calculating the present value of the minimum lease payments the discount factor used is the interest rate implicit in the lease. Initial direct costs incurred are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. A finance lease gives rise to depreciation expense for the asset as well as a finance expense for each accounting period. The depreciation policy for leased assets is consistent with that for depreciable assets that are owned.

k) Cash and cash equivalents

Cash comprises cash held at banks and on hand. Cash equivalents include demand deposits and time deposits with maturities up to three months.

l) Debtors and prepayments

Debtors and prepayments are shown at amortised cost less provisions for non-collectibility. 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.

m) 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 and 95% of estimated average sales price, which approximates net realisable value.

- Semi-finished products are valued at the lower of estimated cost and net realisable value based on year-end Platts prices reduced by a commensurate percentage, based on the extent of completion of processing, of estimated average refining and production margins.

- 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.

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.

n) Refinery maintenance

Refineries operate a rolling annual maintenance programme. Maintenance costs are therefore charged to the income statement in the year in which they arise.

o) Foreign currencies

In the accounts of individual divisions and group companies (foreign entities), transactions denominated in foreign currencies are translated into local currency at the rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into local currency at the rates of exchange prevailing at the year end. Any gain or loss arising from a change in exchange rates subsequent to the date of transaction is included in the income statement within financial income or financial expense respectively. For the purposes of consolidation, the closing rate method is used whereby foreign exchange gains and losses resulting from the translation of the net assets of individual foreign group companies at the rates of exchange prevailing at the year-end are taken to reserves.

p) Taxes on income

Provision is made, where necessary, for taxes on income. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax assets are recognised for the carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised. Income taxes have not been provided on undistributed earnings of foreign subsidiaries to the extent the earnings are intended to remain indefinitely invested in those entities.

q) Financial instruments

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

Financial assets and financial liabilities include cash and cash equivalents, marketable securities, trade and other accounts receivable and payable, long-term receivables, loans, borrowings and investments. The policies on the recognition and measurement of these items are disclosed in the respective accounting policies. Financial instruments are classified as assets and liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument classified as a liability, are reported as an expense or income as incurred.

Financial instruments are offset when a company has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

r) Derivatives

In accordance with IAS 39, 'Financial Instruments: Recognition and Measurement' derivative financial instruments, unless designated as hedges, are carried in the balance sheet at fair value, with changes in the fair value included in the income statement. The effect of the initial adoption of IAS 39 at 1 January 2001 is shown in the statement of changes in equity for 2001.

The group operates internationally, giving rise to significant exposure to market risks from changes in commodity prices, interest and foreign exchange rates. To a limited extent, the group has used the following derivative financial instruments

Accounting policies (continued)

to mitigate those risks:

- Interest-rate swaps to swap floating interest rate payments to fixed rate payments to protect against interest rate risk;
- Short term foreign-exchange forward contracts to protect against exchange rate risk;
- Short term crude oil futures contracts to reduce the price risks associated with crude oil purchase transactions.

Such derivative financial instruments are not material.

In the ordinary course of business, the group also 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, classified as held for trading and carried at fair value, with changes in fair value being included in net profit or loss.

The fair value of embedded forward foreign exchange contracts is determined by reference to spot market foreign currency rates at the balance sheet date. 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. Long term effects of these embedded derivatives are discounted using a discount rate similar to the interest rate on government bonds.

s) Segmental disclosures

For management purposes the Group is organised into four major operating business units. The business units are the basis upon which the Group reports its primary segment information. Certain financial information on business and geographical segments is presented in note 1.

t) 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 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 fixed assets. Subsequent adjustments to the provision arising from changes in estimates are also treated as an adjustment to the cost of the fixed asset and thus dealt with prospectively in the income statement through future depreciation of the asset, calculated in accordance with accounting policy (g) (iii) above.

u) Revenue recognition

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably. Sales are recognised, net of sales taxes and discounts, when delivery of goods or rendering of a service has taken place and transfer of risks and rewards has been completed. In particular, natural gas sales are recognised on the basis of gas delivered calculated at the prices in force at the time when the sale was made. Revenue from intra-group and inter divisional transactions is eliminated, together with the related expense, in accordance with accounting policies (b) and (c) above.

Notes to financial statements

31 December 2002

1 Turnover

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

Turnover information - geographical	INA Group Turnover 2002 HRK millions	INA Group Turnover 2001 HRK millions	INA Matica Turnover 2002 HRK millions	INA Matica Turnover 2001 HRK millions
Republic of Croatia	9,730	10,779	9,564	10,597
Bosnia and Herzegovina, and Slovenia	1,783	2,460	1,205	1,830
Within the European Union	1,284	1,123	1,831	1,482
Rest of the world	1,282	1,760	152	201
	14,079	16,122	12,752	14,110

Turnover information - type of business	INA Group Turnover 2002 HRK millions	INA Group Turnover 2001 HRK millions	INA Matica Turnover 2002 HRK millions	INA Matica Turnover 2001 HRK millions
Oil and gas exploration and production	692	1,290	510	565
Distribution and wholesaling of natural gas	2,423	2,681	2,423	2,681
Distribution and marketing of petroleum and associated products	9,922	10,979	9,819	10,864
Trading on behalf of third parties	1,042	1,172	-	-
	14,079	16,122	12,752	14,110

The turnover information set out above is consistent with previous years and the original principles of segmental disclosure set out in IAS 14. As the group has no publicly traded securities it has elected not to adopt the expanded requirements of IAS 14 (revised).

Notes to financial statements (continued)

2 Depreciation, depletion and amortisation

	INA Group 2002 HRK millions	INA Group 2001 HRK millions	INA Matica 2002 HRK millions	INA Matica 2001 HRK millions
Intangible and tangible fixed assets (notes 7 and 8)	889	1,105	725	766

3 Staff costs

	INA Group 2002 HRK millions	INA Group 2001 HRK millions	INA Matica 2002 HRK millions	INA Matica 2001 HRK millions
Net payroll	908	954	616	734
Contributions for pensions and health insurance	583	594	409	478
Other payroll related costs	316	242	190	150
	1,807	1,790	1,215	1,362

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

	INA Group 2002 Number	INA Group 2001 Number	INA Matica 2002 Number	INA Matica 2001 Number
Research and development	498	493	450	463
Production	6,259	7,437	3,248	5,421
Sales and marketing	436	279	56	53
Distribution	4,193	4,178	3,802	3,923
Administration	4,313	4,651	3,347	3,676
	15,699	17,038	10,903	13,536

4 Financial income

	INA Group 2002 HRK millions	INA Group 2001 HRK millions	INA Matica 2002 HRK millions	INA Matica 2001 HRK millions
Interest from financial assets	21	11	26	13
Other interest income	61	178	51	157
Dividends	21	5	286	3
Foreign exchange gains				
- long term loans (note 17)	105	-	98	-
- other foreign exchange gains	364	114	260	71
Gains on embedded derivatives	144	-	144	-
	716	308	865	244

5 Financial expense

	INA Group 2002 HRK millions	INA Group 2001 HRK millions	INA Matica 2002 HRK millions	INA Matica 2001 HRK millions
Interest payable in respect of long term loans	87	245	85	210
Other interest payable	143	212	113	163
Foreign exchange losses				
- long term loans (note 17)	-	30	-	33
- other foreign exchange losses	246	140	91	88
Other financial expenses	31	56	20	43
	507	683	309	537

6 Taxation

	INA Group 2002 HRK millions	INA Group 2001 HRK millions	INA Matica 2002 HRK millions	INA Matica 2001 HRK millions
Current tax expense	16	66	-	-
Deferred tax (benefit) / expense relating to				
origination and reversal of temporary differences	-	(57)	-	-
	16	9	-	-

The reconciliation of the effective tax rate to the applicable tax rate is as follows:

	2002 INA Group HRK millions	%	2002 INA Matica HRK millions	%
Accounting profit before taxation	995	100	854	100
Tax at the applicable tax rate (20%)	199	20	171	20
Tax effect of permanent differences	54	5	50	6
Utilisation of unrecognised deferredtax assets	(237)	(23)	(221)	(26)
Tax expense	16	2	-	-

The applicable tax rate is the profits tax rate of 20% in Croatia for 2002 (2001 - 20%).

Notes to financial statements (continued)

6 Taxation (continued)

Components of the deferred tax liability are as follows:

	INA Group 2002 HRK millions	INA Group 2001 HRK millions
Deferred tax liability in White Nights	-	86
Other temporary differences in White Nights	-	(57)
	-	29

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 current tax expense relates to the group's foreign and domestic subsidiaries. The group is subject to corporate income tax on its taxable profits in Croatia. However, due to significant tax losses carried forward the group currently does not pay Croatian income taxes. The principal tax losses carried forward by the company will expire in the following years:

	INA Matica 2002 HRK millions
2003	-
2004	798
	798

Deferred tax assets of HRK 160 million (2001 - HRK 382 million) in the company, principally relating to the above tax losses carried forward, have not been recognised due to uncertainty of future taxable income against which the tax losses carried forward may be relieved. The unrecognised deferred tax asset at 31 December 2002 is calculated at the profits tax rate applicable at the balance sheet date of 20% (2001 - 20%) .

7 Intangible fixed assets - oil and gas properties

	INA Group HRK millions	INA Matica HRK millions
At 31 December 2001	200	182
Additions	374	372
Charged to income statement	(124)	(120)
Charged against accruals	(92)	(92)
Transfers to tangibles	(2)	-
Amortisation (note 2)	(5)	(3)
At 31 December 2002	351	339

8 Tangible fixed assets

a) By business segment

INA Group	2002 Cost or valuation HRK millions	2002 Accumulated depreciation HRK millions	2002 Net book value HRK millions	2001 Cost or valuation HRK millions	2001 Accumulated Depreciation HRK millions	2001 Net book value HRK millions
Oil and gas exploration and production, gas storage and oilfield services	18,446	14,445	4,001	21,871	16,497	5,374
Refining	7,857	6,196	1,661	8,057	6,417	1,640
Marketing (Wholesale and Retail)	3,728	2,433	1,295	3,640	2,415	1,225
Other *	1,146	482	664	614	293	321
	31,177	23,556	7,621	34,182	25,622	8,560

INA Matica	2002 Cost or valuation HRK millions	2002 Accumulated depreciation HRK millions	2002 Net book value HRK millions	2001 Cost or valuation HRK millions	2001 Accumulated depreciation HRK millions	2001 Net book value HRK millions
Oil and gas exploration and production and gas storage	15,700	12,183	3,517	16,186	12,422	3,764
Refining	7,549	6,052	1,497	8,054	6,414	1,640
Marketing (Wholesale and Retail)	3,150	2,155	995	3,368	2,277	1,091
Other	332	176	156	324	164	160
	26,731	20,566	6,165	27,932	21,277	6,655

* Other fixed assets with a net book value of HRK 212 million were transferred to “Other” fixed assets upon formation of the subsidiary STSI integrirani tehniËki servisi d.o.o. as a new subsidiary (note 22).

Notes to financial statements (continued)

8 Tangible fixed assets (continued)

b) By asset type

INA Group	Oil and gas properties HRK millions	Land and buildings HRK millions	Plant and machinery and assets under construction HRK millions	Vehicles and office equipment HRK millions	Collective consumption assets HRK millions	Total HRK millions
Cost or valuation						
At 31 December 2001	12,539	11,189	9,332	1,029	93	34,182
Additions	8	84	845	21	1	959
Transfers	217	56	(307)	34	-	-
Disposal of White Nights and Plinacro (note 22)	(719)	(2,506)	(365)	(6)	-	(3,596)
Other disposals	(7)	(83)	(216)	(48)	(8)	(362)
Foreign currency translation adjustment	-	(4)	(1)	(1)	-	(6)
At 31 December 2002	12,038	8,736	9,288	1,029	86	31,177
Accumulated depreciation						
At 31 December 2001	9,424	7,683	7,577	880	58	25,622
Charge for the year (note 2)	398	142	265	78	1	884
Additions	14	-	9	-	-	23
Disposal of White Nights and Plinacro (note 22)	(314)	(2,193)	(141)	(5)	-	(2,653)
Other disposals	(9)	(65)	(196)	(44)	(3)	(317)
Foreign currency translation adjustment	-	(1)	(1)	(1)	-	(3)
At 31 December 2002	9,513	5,566	7,513	908	56	23,556
Net book value						
At 31 December 2002	2,525	3,170	1,775	121	30	7,621
At 31 December 2001	3,115	3,506	1,755	149	35	8,560

Additions to oil and gas properties and assets under construction include own costs capitalised in 2002 of HRK 417 million (2001- HRK 186 million).

8 Tangible fixed assets (continued)

b) By asset type

INA Matica	Oil and gas properties HRK millions	Land and buildings HRK millions	Plant and machinery and assets under construction HRK millions	Vehicles and office equipment HRK millions	Collective consumption assets HRK millions	Total HRK millions
Cost or valuation						
Balance at 31 December 2001	11,867	7,974	7,206	801	84	27,932
Additions	8	10	545	4	-	567
Transfers	217	35	(274)	22	-	-
Transfer of asset to newly formed subsidiaries (note 22)	-	(937)	(345)	(202)	-	(1,484)
Disposals	(7)	(68)	(189)	(17)	(3)	(284)
Balance at 31 December 2002	12,085	7,014	6,943	608	81	26,731
Accumulated depreciation						
Balance at 31 December 2001	9,117	5,214	6,185	705	56	21,277
Charge for the year (note 2)	398	143	144	36	1	722
Additions	-	-	9	-	-	9
Transfer of asset to newly formed subsidiaries (note 22)	-	(688)	(328)	(180)	-	(1,196)
Disposals	(9)	(46)	(161)	(29)	(1)	(246)
Balance at 31 December 2002	9,506	4,623	5,849	532	56	20,566
Net book value						
At 31 December 2002	2,579	2,391	1,094	76	25	6,165
At 31 December 2001	2,750	2,760	1,021	96	28	6,655

Additions to plant and machinery and assets under construction include own costs capitalised in 2002 of HRK 23 million (2001 - HRK 49 million).

Notes to financial statements (continued)

8 Tangible fixed assets (continued)

i) Oil and gas reserves

The ability of the company and 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 the year, the company obtained from Altinex UK Limited (an international service and consultancy company) an independent assessment of the quantities of the company's remaining proved developed and undeveloped oil and gas reserves which are commercially recoverable. On the basis of this assessment, the Management Board's estimate of the discounted future net revenues to be derived from such remaining reserves is greater than the net book value of the oil and gas properties.

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 2,391 million in 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 wholesale fixed assets

At 31 December 2002, the net book values of the company's and group's refining and wholesale fixed assets were HRK 1,598 million and HRK 1,759 million respectively. International Accounting Standard 36 'Impairment of Assets' provides guidance on the identification and measurement of any impairment in the carrying value of assets, and requires that whenever there is an indication that an asset may be impaired, its carrying value should be compared with the recoverable amount, and any excess written off. The recoverable amount is the higher of (i) the net selling price if the asset were to be sold, and (ii) the asset's 'value in use', being the net present value of future cashflows, based on reasonable and supportable assumptions and management's best estimate of future economic conditions.

In 2001, the Ministry of Economy announced the appointment of a consortium of advisers to advise on the reform of Croatia's oil and gas sector including reviewing the strategic options for INA and its constituent businesses.

During 2002, the Government published a tender for the sale of up to 25 % plus one share of the Company to a strategic investor. Bids have subsequently been submitted by a number of interested parties. However, no decision has yet been made concerning the partial privatisation of the company and the restructuring of the sector. Whilst the Management Board is of the view that consideration should be given to assessing the carrying values of the company's and group's refining and wholesale assets in accordance with the requirements of International Accounting Standard 36 'Impairment of Assets', the Board has concluded that macroeconomic and environmental policy, together with related factors which are fundamental to the future profitability of the group's refining and wholesale business, remain uncertain. Consequently, the existence and extent of any impairment in the carrying values of the company's and group's refining and wholesale fixed assets is also uncertain, pending the outcome of the Government's privatisation process, and the review of the oil and gas sector.

In this context, the Management Board has concluded that it is not currently possible to determine with any certainty whether, or the extent to which, any impairment provision against the carrying values of the company's and group's refining and wholesale fixed assets is required. Should adjustments become necessary with respect to the carrying values of these assets, the effects of any such adjustments will be recognised in future financial statements as they become known and estimable.

9 Investments in subsidiaries

	2002 HRK millions	2001 HRK millions
Investments in share capital subsidiaries	841	1,352

The movement in investments in subsidiaries during the year was as follows:

	INA Matica HRK millions
At 31 December 2001	1,352
Additions	606
Disposals	(1,095)
Provisions against investments	(22)
At 31 December 2002	841

In accordance with the Government's reform of the energy sector, with effect from 1 February 2001 the company established a new subsidiary undertaking, Plinacro d.o.o, and contributed gas transportation assets at a value of HRK 841 million, realising an intra-group gain on transfer of HRK 443 million in 2001 which was eliminated on consolidation. During 2002, the company disposed of its entire interest in Plinacro d.o.o. Details of this disposal are provided in note 22.

With effect from 1 January 2002, the company established two new subsidiary undertakings, Proplin d.o.o. and STSI integrirani tehniËki servisi d.o.o. (STSI), with effect from 1 April 2002, Maziva Zagreb d.o.o. The company contributed assets with a net book value of HRK 465 million to these entities, comprising fixed assets of HRK 288 million and other net assets of HRK 177 million. The company has recorded additions to its investments in its subsidiaries of HRK 499 million, comprising investments in shares of HRK 341 million, as analysed in the table above, plus net additions to intercompany long term receivables of HRK 158 million.

Accordingly, an intra-group gain of HRK 34 million arose on the transfer of these assets included in other income. This gain is eliminated on consolidation.
The company's financial statements comprise the financial statements of the following divisions:

- INA Naftaplin (exploration and production)
- Rijeka Refinery (Urinj)
- Sisak Refinery
- Lubricants (Mlaka)
- Lubricants Zagreb (staro poslovanje)
- INA Wholesale and purchase of crude oil
- INA Retail
- Poslovno upravljaËke funkcije (corporate functions)
- KratkoroËni krediti (short-term loans)
- RaËunovodstvo æiro raËuna (accounting)
- DugoroËni devizni krediti i stanovi (long-term loans and apartments)
- KartiËno poslovanje (INA card)

Notes to financial statements (continued)

9 Investments in subsidiaries (continued)

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

NAME OF COMPANY	Activity	Shareholding
Oilfield services		
*Crosco Naftni Servisi d.o.o. Zagreb	Oilfield services	100%
Crosco International Limited, Guernsey	Oilfield services	100%
Nordic Shipping Ltd, Marshall Islands	Platform ownership	100%
Sea Horse Shipping Inc, Marshall Islands	Platform ownership	100%
Crosco Drilling & Well Services (UK) Limited	Financing	100%
Oil exploration and production		
*INA Naftaplin International Exploration and Production Ltd, Guernsey	Oil exploration and production	100%
Siberian Energy Investments Limited, Guernsey (sold 5 August 2002)	Holding company	100%
White Nights Limited Liability Company, Russia (sold 5 August 2002)	Oil exploration and production	100%
INA Neftetrans, Russia (sold 5 August 2002)	Transport services	83%
CorteCros d.o.o., Zagreb	Distribution of anti-corrosion products	60%
Tourism		
*ITR d.o.o. Zagreb	Car rental	100%
*Hostin d.o.o. Zagreb	Tourism	100%
Ancillary services		
INA Sisak Shipping Corporation, British Virgin Islands (to 11 December 2001)	Shipping	100%
INA Djeletovci Shipping Corporation, British Virgin Islands (to 11 December 2001)	Shipping	100%
INA Urinj Shipping Corporation, British Virgin Islands (to 11 December 2001)	Shipping	100%
STSI integrirani tehniËki servisi d.o.o. Zagreb (from 1 January 2002)	Technical services	100%
Production and trading		
*Maziva Zagreb d.o.o. Zagreb (from 1 April 2002)	Production and lubricants trading	100%
*Proplin d.o.o. Zagreb (from 1 January 2002)	Production and LPG trading	100%

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., Mostar, Bosnia and Herzegovina (dormant)	Foreign trading	100%
*Interina d.o.o. Skopje, Macedonia (dormant)	Foreign trading	100%
*Interina Holding Ltd, London, UK	Foreign trading	100%
Inter Ina Ltd, London, UK	Foreign trading	100%
Interina GmbH, Frankfurt, Germany (dormant)	Foreign trading	100%
*INA Hungary Kft., Budapest, Hungary (dormant)	Foreign trading	100%
*FPC Ltd, London, UK – dormant	Foreign trading	100%
*Holdina (Guernsey) Ltd, Guernsey	Foreign trading	100%
Inter Ina (Guernsey) Ltd, Guernsey	Foreign trading	100%
Holdina d.o.o. Sarajevo Bosnia and Herzegovina	Foreign trading	100%
Holdina (Cyprus) Ltd, Cyprus	Foreign trading	100%
Holdina (Ireland) Ltd, Ireland	Foreign trading	100%
*Commercina AG, Switzerland (in liquidation)	Foreign trading	100%
*Infocentar d.o.o. Zagreb	Information technology	100%
Plinacro d.o.o. Zagreb (to 11 March 2002)	Trading and distribution	100%
Adriagas S.r.l. Milan, Italy	Pipeline project company	100%
*INA Crna Gora d.o.o. Kotor	Foreign trading	100%
*INA CRO Petrol d.d., Zagreb	Trading	89%
*Petrol d.d. Rijeka	Trading	83%
*INA-Osijek – Petrol d.d.	Trading	76%
Intersina (Guernsey) Ltd, Guernsey (liquidated 1 August 2001)	Foreign trading	50%

The group also has representative offices in the following locations:

Moscow, Russia	Rabat, Morocco
Tirana, Albania	Baku, Azerbaijan
Damascus, Syria	Nagykanizsa, Hungary
Cairo, Egypt	Muscat, Oman
Luanda, Angola	Doha, Qatar
Tripoli, Libya	Tehran, Iran (dormant)
Ravenna, Italy	Tunis, Tunisia

Notes to financial statements (continued)

10 Investments in joint venture and other companies

INA Group	2002 HRK millions	2001 HRK millions
JANAF d.d.	321	919
Joint venture company – Noble Crosco Drilling Ltd	79	64
Other investments (non-consolidated entities)	131	104
	531	1,087
INA Matica		
JANAF d.d.	321	919
Other investments (non-consolidated entities)	114	86
	435	1,005

JANAF d.d.

Name of company	Activity	% shareholding held by INA
Jadranski Naftovod d.d. (JANAF d.d.)	Pipeline ownership and operations	16.63%

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 16.63%. Details of the disposal are provided in note 22. As explained in note 26, a substantial portion of the trading income of JANAF d.d. is derived from INA.

Joint venture company - Noble Crosco Drilling Ltd	2002 INA Group HRK millions	2001 INA Group HRK millions
Group's share of net assets on formation	114	114
Cumulative share of profit (loss) since formation	14	(2)
	128	112
Cumulative foreign currency translation adjustment	(1)	2
Less: unamortised negative goodwill	(48)	(50)
Investment in joint venture company at 31 December	79	64

10 Investments in joint venture and other companies (continued)

Joint venture company - Noble Crosco Drilling Ltd (continued)

Name of company	Activity	% shareholding held by INA Group
Noble Crosco Drilling Ltd	Platform ownership and drilling services	50%

During 2000, the group contributed Panon, a drilling platform and related assets, formerly held by a wholly owned subsidiary, in exchange for a 50% interest in Noble Crosco Drilling Ltd, a jointly controlled company. As part of the same transaction, INA's joint venture partner contributed cash in the amount of HRK 114 million in exchange for a 50% interest in Noble Crosco Drilling Limited.

The group's investment in Noble Crosco Drilling Ltd is accounted for in the group's financial statements under the equity method, whereby the investment is carried at the group's share in the fair value of the net assets on formation, adjusted for subsequent profits and losses, and net of negative goodwill. The negative goodwill is credited to other income over the period of the joint venture, based on the useful life of the assets contributed.

Other investments

	INA Group HRK millions	INA Matica HRK millions
At 31 December 2001	104	86
Additions	21	21
Amounts written off	(2)	(1)
Other	8	8
At 31 December 2002	131	114

Notes to financial statements (continued)

10 Investments in joint venture and other companies (continued)

Other investments (continued)

Name of company	Activity	% shareholding held by INA companies
Adriaoil S.p.A Milan	Trading	50%
INAgip d.o.o. Zagreb	Exploration and production operator (joint venture)	50%
ED INA d.o.o. Zagreb (from 8 November 2002)	Research, development and hydrocarbon production	50%
INOS d.o.o. Zagreb (in liquidation)	Trading (joint venture)	50%
Luk-INA Limited, British Virgin Islands (in liquidation)	Oil trading (joint venture)	50%
Plinara d.o.o. Pula	Gas distribution and marketing	49%
Mideast Integrated Drilling & Well Services Company LLC, Oman	Oilfield services	49%
SOL-INA d.o.o.	Industrial gas production	37%
Plinara istočne Slavonije d.o.o. Zagreb (ustupanje poslovnog udjela društvu Croplin d.o.o.11.7.2002)	Gas distribution	40%
Energetski Institut "Hrvoje Požar" d.o.o., Zagreb (prijenos poslovnog udjela na RH 26.6.2002.)	Energy Institute	33%
Energometan Samobor d.o.o., Samobor	Gas distribution	33%
Croplin d.o.o Zagreb	Petroleum retailing	33%
Belvedere d.d., Dubrovnik	Hotel	32%
Adria LNG Study Company Ltd	Oil exploration	18%
K.D. Energo d.o.o. Rijeka (from 4.2.2002.)	Production and distribution of heating energy and gas	15%
OMV-Istrabenz d.o.o., Koper	Trading (joint venture)	10%
HOC Bjelolasica d.o.o., Ogulin	Croatian Olympic Centre	7%
Nogometni Klub Dinamo d.d., Zagreb	Football club	6%
BINA - Fincom d.d., Zagreb	Transport	5%
Željezara Sisak d.d., Sisak	Steel production	5%
PKP d.d., Potpićan	Industrial	3%
Privredna Banka d.d., Zagreb	Banking	2.34%

10 Investments in joint venture and other companies (continued)

None of the above investments with shareholdings in excess of 20% have been accounted for under the equity accounting method as, in the opinion of the Management Board, the application of equity accounting would not materially affect the financial statements of or the group.
The company's proportion of development expenditure relating to its corporate exploration and production joint venture, INAgip d.o.o., is included within tangible fixed assets, oil and gas properties.

11 Long term receivables

	2002	2001
INA Group	HRK millions	HRK millions
Amounts receivable in respect of collective consumption assets sold	223	273
Other long term receivables	34	12
	257	285

INA Matica		
Amounts receivable in respect of collective consumption assets sold	223	273
Long term receivables from Crosco	117	100
Long term receivables from Proplin	34	-
Other long term receivables	167	52
	541	425

12 Inventories

	2002	2001
INA Group	HRK millions	HRK millions
Crude oil	627	315
Refined products	1,024	814
Spare parts, materials and supplies	471	524
Gas inventories	285	313
	2,407	1,966

INA Matica		
Crude oil	627	295
Refined products	965	785
Spare parts, materials and supplies	276	456
Gas inventories	285	313
	2,153	1,849

Notes to financial statements (continued)

12 Inventories (continued)

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

13 Trade receivables of the company

Trade receivables of the company of HRK 1,344 million (2001 - HRK 1,276 million) are stated net of provisions for doubtful receivables. Other income in 2002 includes an amount of HRK 49 million relating to the write back of provisions against trade receivables recorded in 2001 and previous years.

14 Bank loans and overdrafts

			2002	2001
INA Matica	Repayment terms	Security/Guarantee	HRK millions	HRK millions
Zagrebačka banka (US$)	by 10.03.2002.	Unsecured	-	167
Bayerische Hypo Vereinsbank (EUR)	on demand	INA d.d. guarantee	-	74
Privredna Banka (HRK)	by 30.06.2002.	Unsecured	-	50
Dresdner Bank (US$)	by 07.02.2002.	Unsecured	-	26
Laguna Poreč (HRK)	by 30.06.2002.	Unsecured	-	10
Other overdrafts and short term loans			7	6
Current portion of long-term loans (note 17)			282	758
Total INA Matica			289	1,091
INA Group				
BNP Paribas (US$)	by 31.12.2003.	INA d.d. guarantee	289	201
State Street Promissory Notes (US$ and EUR)	by 07.01.2002.	INA d.d. guarantee	-	162
Natexis Bank (US$)	by 26.02.2002.	INA d.d. guarantee	-	84
Standard Bank (US$)	by 11.02.2002.	INA d.d. guarantee	-	37
Raiffeisenbank (EUR, US$ and HRK)	by 31.12.2003.	INA d.d. guarantee	22	33
OIB Oman (US$)	by 31.12.2003.	INA d.d. guarantee	7	10
Fortis Bank (US$)	by 31.12.2003.	INA d.d. guarantee	46	-
Zagrebačka bank (EUR)	by 31.12.2003.	INA d.d. guarantee	25	-
HVB Bank Croatia (US$)	by 31.12.2003.	INA d.d. guarantee	31	-
Hrvatska poštanska bank (US$)	by 31.12.2003.	INA d.d. guarantee	11	-
Bank Muscat Oman (US$)			-	11
Other overdrafts and short term loans			13	6
Current portion of long-term loans (note 17)			29	25
Total INA Group			762	1,660

14 Bank loans and overdrafts (continued)

Interest is payable on the above loans at rates based on LIBOR plus up to 2%. 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 (note 9). These loans are typically settled in full every 60 days on a revolving basis.

15 Accounts payable and other short term liabilities

INA Group	2002 HRK millions	2001 HRK millions
Trade payables	1,823	1,695
Production and sales taxes payable	418	450
Payroll and payroll taxes	162	151
Other creditors	107	145
	2,510	2,441

INA Matica		
Trade payables	888	990
Production and sales taxes payable	401	428
Payroll and payroll taxes	113	119
Other creditors	30	55
	1,432	1,592

16 Accruals and deferred income

INA Group	2002 HRK millions	2001 HRK millions
Accrued interest - long term loans	17	74
Other accruals and deferred income	337	307
	354	381

INA Matica		
Accrued interest - long term loans	17	74
Other accruals and deferred income	239	188
	256	262

Notes to financial statements (continued)

17 Long term loans

Long term loans are denominated in a variety of foreign currencies and are subject to a range of interest rates. The majority of these loans are secured by bills of exchange held by Croatian banks. The loans of the company and the group outstanding at 31 December 2002 are analysed as follows:

	Loan Description	Loan Currency	2002 HRK millions	2001 HRK millions
Mizuho / Zagrebačka bank	Syndicates/revolving	US$	1,072	-
Banco Commerciale Italiana	Pipeline construction	US$	201	309
London Club	Series A and B Bonds	US$	3	1,395
Paris Club	Original and Bilateral	various	87	356
Montana Gas	Gas supply loan	EUR	95	94
Hypovereins Bank	Various	EUR	32	50
EBRD	Environmental	EUR	30	-
Bankers Trust	Syndicated loan	US$ and DEM	-	420
Other		various	-	8
			1,520	2,632
Payable within 1 year			(282)	(758)
Total long term loans - INA Matica			1,238	1,874
Other long-term group loans			253	73
Payable within 1 year			(29)	(25)
Total long term loans - INA Group			1,462	1,922

17 Long term loans(continued)

INA Matica	Weighted average interest rate 2002 %	Weighted average interest rate 2001 %	2002 HRK millions	2001 HRK millions
Bank loans in US$	3.62	5.74	1,308	2,214
Bank loans in EUR	5.43	6.67	193	369
Bank loans in GBP	-	6.25	-	29
Bank loans in Yens	5.17	5.25	18	19
Bank loans in DKK	4.25	5.88	1	1
Total			1,520	2,632
Payable within 1 year			(282)	(758)
Total long term loans - INA Matica			1,238	1,874

INA Group				
Bank loans in US$	3.71	7.29	1,552	2,267
Bank loans in EUR	5.43	6.81	202	389
Bank loans in GBP	-	6.25	-	29
Bank loans in yens	5.17	5.25	18	19
Bank loans in other currencies	4.25	5.88	1	1
Total			1,773	2,705
Payable within 1 year			(311)	(783)
Total long term loans - INA Group			1,462	1,922

Notes to financial statements (continued)

17 Long term loans (continued)

The maturity of loans may be summarised as follows:

	INA Group 2002 HRK millions	INA Matica 2002 HRK millions
Current portion of long-term debt	311	282
Maturity one to two years	468	415
Maturity two to three year	443	400
Maturity three to four years	407	364
Maturity four to five years	59	16
Maturity over five years	85	43
Total	1,773	1,520

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

	INA Group HRK millions	INA Matica HRK millions
At 31 December 2001	2,705	2,632
New loans	1,372	1,157
Repayments	(761)	(733)
Disposals (note 22)	(1,438)	(1,438)
Foreign exchange translation (gain)	(105)	(98)
At 31 December 2002	1,773	1,520
Payable within 1 year (included within bank loans and overdrafts - note 16)	(311)	(282)
Payable after more than 1 year	1,462	1,238

17 Long term loans (continued)

The principal long term loans outstanding at 31 December 2002 and the principal new loans drawn down and repaid during 2002 were as follows:

a) MIZUHO Corporate Bank LTD and Zagrebačka banka
During the year, the company entered into a long term financing arrangement with MIZUHO Corporate Bank LTD and Zagrebačka banka. The loan is denominated in US$ and amounted to US$ 150 million (HRK1,072 million). This loan is repayable in seven equal half yearly instalments and bears interest at LIBOR 1,3 % annually.

b) London and Paris Clubs
As set out in note 22, the company's long term loans to the London and Paris Clubs were reduced by HRK 1,438 million when these loans were assumed by the Croatian Government in consideration for the disposal by the company of its 100% interest in Plinacro d.o.o., Zagreb (the company's gas transmission subsidiary formed in 2001) and 21.37% of the equity in JANAF d.d.. The disposal of these interests was effective on 11 March 2002 although, under the agreement with the Government, the company remained liable for interest accruing on the loans divested until 31 December 2002. This interest has been accrued for in the company's results for 2002.

The company's residual long term liabilities to the London and Paris Clubs are HRK 3 million and HRK 97 million respectively. The London Club long term loans comprise Series A and B Bonds which were issued in July 1996 pursuant to the rescheduling of the former accounts payable by Croatia under the New Financing Agreement to a number of foreign banks comprising the London Club. Interest is payable on 31 January and 31 July annually at LIBOR plus 13/16.

The Paris Club comprises some 14 foreign government credit agencies which originally provided debt and project finance through local banks to entities I the former Yugoslavia. Interest is payable on 31 January and 31 July annually.

c) Bankers Trust
The US$ 50 million syndicated multi-currency term loan facility was fully repaid in March 2002. The amounts outstanding at 31 December 2001 were US$ 48 million and DEM 4 million (HRK 420 million).

d) Banco Commerciale Italiana
The long term loan from Banco Commerciale Italiana is a gas pipeline construction facility denominated in US Dollars. The loan is secured by two letters of credit in the amount of 1/20 of withdrawn trenches and interest is payable LIBOR plus 2 % per annum. An amount of US$ 37 million (HRK 309 million) was outstanding against this facility at 31 December 2001. During 2002, US$ 9 million (HRK 68 million) was repaid. The balance outstanding at 31 December 2002 was US$ 28 million (HRK 201 million).

Notes to financial statements (continued)

18 Other long term liabilities

INA Group	2002 HRK millions	2001 HRK millions
Liabilities to government for sold apartments	148	154
Deferred income for sold apartments	64	67
Lease creditor (note 22)	-	88
Other long term liabilities	14	14
	226	323

INA Matica		
Liabilities to government for sold apartments	148	154
Deferred income for sold apartments	64	67
Other long term liabilities	-	1
	212	222

19 Provisions

INA Group (HRK millions)	Decommissioning	Deferred tax (note 6)	Other	Total
At 31 December 2001	856	29	66	951
Effect of changes in estimates, capitalised	9	-	-	9
Charge for the year	73	-	50	123
Provision utilised during year	(27)	-	-	(27)
Disposal of White Nights (note 22)	(23)	(29)	-	(52)
At 31 December 2002	888	-	116	1,004

INA Matica (HRK millions)	Decommissioning	Other	Total
At 31 December 2001	833	45	878
Charge for the year	73	31	104
Effect of changes in estimates, capitalised	9	-	9
Provision utilised during the year	(27)	-	(27)
At 31 December 2002	888	76	964

Notes to financial statements (continued)

20 Paid-up share capital

	INA Group and INA Matica 2002 HRK millions	INA Group and INA Matica 2001 HRK millions
10 million shares (HRK 900 each)	9,000	9,000

The share capital of the company, originally denominated in Deutschmarks (DM), was retranslated into Kuna as part of the company's formal registration with the Croatian courts in April 1995. The share capital is wholly owned by the Republic of Croatia and the share certificates are held by the Croatian National Bank. Pursuant to a resolution of the Commercial Court in October 2001, the share capital of the company was adjusted to HRK 9,000 million. The adjustment was effected through a transfer from other reserves.

21 Other reserves

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

For subsequent periods, the results of the transactions of the company and the group, to the extent that they affect reserves, are accounted for within appropriate reserve accounts. The reserves of the company and the group as at 31 December 1993 were combined at that date, and are separately stated below. Movements on reserves during the year was as follows:

INA Group

	Combined reserves at 31 December 1993 HRK millions	Foreign currency translation reserve HRK millions	Other reserves HRK millions	Total HRK millions
At 31 December 2001	2,132	-	447	2,579
Movements during 2002	-	(102)	-	(102)
At 31 December 2002	2,132	(102)	447	2,477

INA Matica

	Combined reserves at 31 December 1993 HRK millions	Other reserves HRK millions	Total HRK millions
At 31 December 2001	1,667	284	1,951
At 31 December 2002	1,667	284	1,951

Notes to financial statements (continued)

22 Disposals

a) Disposal of interests in Plinacro d.o.o and JANAF.d.d.

Effective 11 March 2002, the company disposed of 100% of it interest in its gas transmission subsidiary, Plinacro d.o.o. (see note 9) and a 21.37% equity interest in JANAF d.d. (see note 10) to the Croatian Government in consideration for the assumption by the Government of long term loans payable to the London and Paris Clubs of US$ 172 million (HRK 1,438 million) (see note 17). The effects of these transactions on the company's and group's financial statements for 2002 are as follows:

	Notes	INA Group HRK millions	INA Matica HRK millions
Net book value of investment in Plinacro d.o.o	9	-	(841)
Net book value of 21.37% interest in JANAF d.d.	10	(597)	(597)
Net assets of Plinacro d.o.o			
Tangible fixed assets	8	(392)	-
Net current assets		(61)	-
Net book value of long terms loans divested	17	1,438	1,438
Gain on disposal (included in other income)		388	-

b) Disposal of interest in Siberian Energy Investments Limited and White Nights LLC

Effective 5 August 2002, the group completed the disposal of its wholly owned interest in Siberian Energy Investments Limited, White Nights LLC and INA Neftetrans, for cash consideration received of US$38.4 million.

In addition, a further amount of US$20 million, which represents additional deferred consideration under the sale and purchase agreement, was deposited in escrow by the purchaser to be released to the company on or after 30 September 2002 (US$5 million) and 30 September 2003 (US$15 million), subject to certain conditions specified in the sale and purchase agreement being met. In particular, a dispute relating to certain leased property associated with White Nights LLC has been raised by the purchaser, and the agreement specifically prevents the amounts in escrow being released whilst such a dispute remains unresolved. Consequently, at the date of these financial statements, the full amount of US$20 million remains in escrow. Arbitration proceedings in relation to the dispute have commenced, and negotiations are underway to resolve the dispute. Accordingly, because collection of the amounts in escrow is not yet assured, no proportion of this additional deferred consideration has been recognised in 2002.

Net assets disposed	Notes	INA Group HRK millions
Tangible fixed assets	8	(551)
Lease creditor	18	88
Decommissioning provision	19	23
Deferred tax provision	19	29
Other net liabilities		145
Proceeds received		288
Gain on disposal (included within other income)		22

23 Minority interests

	INA Group HRK millions
At 31 December 2001	1
Share of net loss for the year	(3)
At 31 December 2002	(2)

24 Commitments

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

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

Details of guarantees relating to short term bank loans and overdrafts are provided in note 14.

Notes to financial statements (continued)

25 Contingencies

a) Environmental matters

The principal activities of the company and the group comprising oil and gas exploration, production, transportation, refining and distribution can have inherent effects on the environment in terms of emissions into land, water and air. The environmental effects of the company's and group's activities are monitored by local management and environmental authorities.

No provisions, other than an accrual for future costs relating to the decommissioning of the company's oil and gas properties (note 19), have been made for any possible, but unquantifiable, future costs relating to environmental matters or remediation work which could possibly be required in respect of pollution resulting from the group's activities.

b) Taxation

The company and its subsidiaries are subject to corporate income tax on their taxable profits in Croatia and those other tax jurisdictions in which they operate.

The balance sheets of the group and the company include an accrued liability of HRK 144 million (2001 - nil) relating to a sales tax assessment issued by the Croatian tax authorities with respect to certain volumetric losses arising during normal production processes at one of the company's refineries in Croatia. Whilst this liability has been recognised, the Management Board intends to contest this sales tax assessment in terms of both its nature and its quantum.

In certain countries outside Croatia there are open corporate and indirect tax issues relating to certain group companies. The Management Board does not believe that any of these open items, particularly in respect of sales taxes and value added taxes in Bosnia and Herzegovina, are likely to result in significant additional unprovided tax payments by the group.

c) Pensions and retirement benefits

c) Pensions and retirement benefits

The company and the group do not operate any pension schemes or other retirement benefit schemes for the benefit of any of their employees or management either in Croatia or abroad. Accordingly, no provisions have been made in this regard.

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

26 Related party transactions

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

The company is the principal customer of Crosco Naftni Servisi d.o.o. and its subsidiaries. The Crosco group, which is wholly owned by the company (note 9), reported consolidated turnover of HRK 1,242 million in 2002 (2001 - HRK 988 million) of which HRK 520 million (2001 - HRK 452 million) represented sales, principally for oilfield services, directly to INA Matica and other group companies.

The company is also a the principal customer for its new subsidiaries STSI d.o.o. and Maziva Zagreb d.o.o which were formed during 2002 (note 9).

The company is also the principal customer of JANAF d.d. in which the company holds a 16.67 % (2001 - 38%) interest (note 10). Approximately HRK 75 million of JANAF d.d.'s turnover of HRK 289 million in 2002 (2001 - HRK 86 million and HRK 247 million respectively) represented sales income from INA Matica for the company's use of JANAF d.d.'s pipeline system. In 2002 the company divested a 21.33% interest in JANAF d.d. and from INA Matica for the company's use of JANAF d.d.'s pipeline system. In 2002 the company divested a 21.33% interest in JANAF d.d. and 100% of Plinacro d.o.o., to the Croatian Government in consideration for the assumption of US$ 172 million of long term debt by the Government (note 22).

27 Financial instruments and risk management

The group is exposed to international, commodity-based markets and has significant loan financing denominated in foreign currencies. As a result, it can be affected by changes in crude oil, natural gas and petroleum product prices, foreign exchange rates, and interest rates. The group also has long term supply and sales agreements with prices denominated in foreign currencies and prices escalated according to various inflation indices. The group uses a risk model to monitor the group's exposure to the risks arising from these external factors. The group also extends credit terms to its customers and is exposed to a risk of default. The significant risks, together with the methods used to manage these risks, are described below. To a very limited extent, the group has used derivative instruments to manage risk. The group does not use derivatives for speculative purposes.

a) Price risk management

Volatility in oil and gas prices is a pervasive element of the group's business environment.

The group is a net buyer of crude oil which is typically purchased under short term arrangements in United States Dollars at current market prices. Derivatives contracts are used to a very limited extent to reduce the group's exposure to short-term United States Dollar oil price fluctuations, which affect the group's margins and cash flow. At 31 December 2002 and 2001 there were no open derivatives contracts.

The group's largest markets are the Croatian refined products and wholesale gas markets. Except for specific arrangements with certain major customers, prices of refined products and natural gas in Croatia have, historically, been determined in consultation with the Government. Government policy with

consultation with the Government. Government policy with respect to refined product prices changed significantly, with effect from 18 January 2001 (NN 2/01) to a regime where prices are adjusted every fifteen days according to an agreed formula based on market (Platts) prices.

a) Price risk management

The group also imports a significant proportion of its overall gas requirement, the purchase price for which is set on a quarterly basis in United States Dollars. Transport of imported gas to the Croatian border is provided under various long term agreements at prices set in foreign currencies and escalated according to certain energy and inflation

indices. Domestic gas sales prices in Croatia are set under contractual arrangements, which vary according to class of customer. The group does not employ derivative contracts to manage its gas purchase price risk.

b) Interest rate risk

Interest rate price risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates relative to the interest rate, which applies to the financial instrument. Interest rate cash flow risk is the risk that the interest cost of an instrument will fluctuate over time.

The group has significant long-term borrowings, which incur interest at variable interest rates, which exposes the group to cash flow risk. Details of the interest rate terms, which apply to the group's borrowings are provided in note 17.

c) Foreign exchange risk

The group's functional currency is the Croatian Kuna whereas crude oil purchases, natural gas purchases and long term financing costs are all denominated in foreign currencies, principally United States Dollars. In addition certain assets and liabilities, principally long term loans, are denominated in foreign currencies, which are retranslated at the prevailing exchange rate at each balance sheet date. The resulting differences are charged or credited to the income statement but do not affect short-term cash flows.

Notes to financial statements (continued)

Furthermore, the group's operations in London Guernsey Bosnia and Herzegovina and Slovenia report in foreign currencies. The net assets of these subsidiaries are translated at each balance sheet date using the closing rate method and the exchange rate movement has resulted in exchange losses of HRK 102 million (2001 - HRK 23 million foreign exchange gain), which are credited directly to reserves in accordance with IAS 21 (note 21).

d) Counter-party risk

Trade receivables are presented net of an allowance for doubtful receivables. The group has a significant concentration of credit risk with Croatian Government agencies and other state-owned enterprises. As a state owned entity itself, the group's exposure to this risk is significantly affected by Government policy.

e) Fair values of financial instruments

Financial instruments held to maturity in the normal course of business are carried in the balance sheet at cost or redemption amount as appropriate.

Fair value is the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced or liquidation sale. Fair values are obtained from quoted market prices and discounted cash flow models as appropriate. At 31 December 2002 and 2001 the carrying amounts of cash and short-term deposits, accounts receivable, accounts payable and accrued expenses, and short-term borrowings approximated their fair values due to the short-term maturities of these assets and liabilities.

The fair values of long-term loans, which predominantly bear interest at floating rates, are not materially different from their carrying values.

Following the adoption of International Accounting Standards 39 'Financial Instruments: Recognition and Measurement', the group accounts for embedded derivatives in the balance sheet at fair value. The only material embedded derivatives are within long term gas transportation agreements (see a) above) which specify minimum contracted volumes, forward pricing formulas and include foreign currencies and inflation indices which do not qualify under International Accounting Standards 39 as 'closely related' to gas transportation.

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

	INA Group and INA Matica 2002 HRK millions
Fair value at 1 January 2002	55
Financial income relating to the net change in fair value in the year (note 4)	144
Fair value at 31 December 2002	199

Appendix 1

Consolidated INA Group income statement translated into United States Dollars (unaudited)

For the year ended 31 December 2002

	2002 INA Group US$ millions	2001 INA Group US$ millions
Sales income	1,796	1,919
Own costs capitalised	53	22
Other income	115	62
Total operating income	1,964	2,003
Cost of raw materials and consumables	(871)	(862)
Depreciation, depletion and amortisation	(113)	(131)
Other material costs	(203)	(173)
Non-material costs	(116)	(111)
Staff costs		
a) Wages and salaries	(116)	(114)
b) Pensions, health insurance and other payroll costs	(115)	(99)
Cost of other goods for resale	(262)	(292)
Current and non-current asset adjustments	(61)	(93)
Provision for charges and risks	(29)	(7)
Changes in inventories of finished goods and work in progress	22	(33)
Total operating costs	(1,864)	(1,915)
Operating profit	100	88
Financial income	91	37
Financial expense	(64)	(81)
Net profit (loss)from financial activities	27	(44)
Profit on ordinary activities before taxation	127	44
Taxation	(2)	(1)
Profit on ordinary activities after taxation	125	43
Minority interests	-	-
Profit for the year	125	43

Appendix 2

INA Matica company income statement translated into United States Dollars (unaudited)

For the year ended 31 December 2002

	2002 INA Matica US$ millions	2001 INA Matica US$ millions
Sales income		
a) Domestic	1,220	1,262
b) Exports	407	418
Own costs capitalised	3	6
Other income	58	113
Total operating income	1,688	1,799
Cost of raw materials and consumables	(810)	(821)
Depreciation, depletion and amortisation	(93)	(91)
Other material costs	(185)	(164)
Non-material costs	(93)	(74)
Staff costs		
a) Wages and salaries	(79)	(87)
b) Pensions, health insurance and other payroll costs	(76)	(75)
Cost of other goods for resale	(264)	(243)
Current and non-current asset adjustments	(48)	(86)
Provisions for charges and risks	(24)	(4)
Changes in inventories of finished goods and work in progress	22	(33)
Total operating costs	(1,650)	(1,678)
Operating profit	38	121
Financial income	110	29
Financial expense	(39)	(64)
Net profit (loss) from financial activities	71	(35)
Profit on ordinary activities before taxation	109	86
Taxation	-	-
Profit for the year	109	86

Appendix 3

Consolidated INA Group balance sheet translated into United States Dollars (unaudited)

31 December 2002

		2002 INA Group US$ millions		2001 INA Group US$ millions
ASSETS				
B. Non-current assets				
Intangible fixed assets		49		24
Tangible fixed assets		1,067		1,025
Investments in associate and other group companies		74		130
Long term receivables		36		34
Total non-current assets		1,226		1,213
C. Current assets				
Inventories		337		235
Trade receivables, net	256		186	
Other receivables	34		32	
Total receivables		290		218
Investments		36		12
Cash at bank and in hand		116		98
Total current assets		779		563
D. Prepayments and accrued income		5		4
F. TOTAL ASSETS		2,010		1,780

Appendix 3 (continued)

Consolidated INA Group balance sheet translated into United States Dollars (unaudited)

31 December 2002

		2002 INA Group US$ millions		2001 INA Group US$ millions
EQUITY AND LIABILITIES				
A. Capital and reserves				
Paid-up share capital		1,693		1,693
Reserves (including retained losses brought forward)		(489)		(532)
Profit for the year		125		43
Translation reserve		(203)		(346)
Equity		1,126		858
Minority interests		-		-
Total capital employed		1,126		858
B Long term provisions		141		114
C. Non-current liabilities				
Long term loans	205		230	
Other non-current liabilities	31		39	
Total non-current liabilities		236		269
D. Current liabilities				
Bank loans and overdrafts		107		198
Accounts payable and other short term liabilities	351		296	
Total current liabilities		458		494
E. Accruals and deferred income		49		45
TOTAL LIABILITIES		884		922
F. TOTAL EQUITY AND LIABILITIES		2,010		1,780

Appendix 4

INA Matica balance sheet translated into United States Dollars (unaudited)

31 December 2002

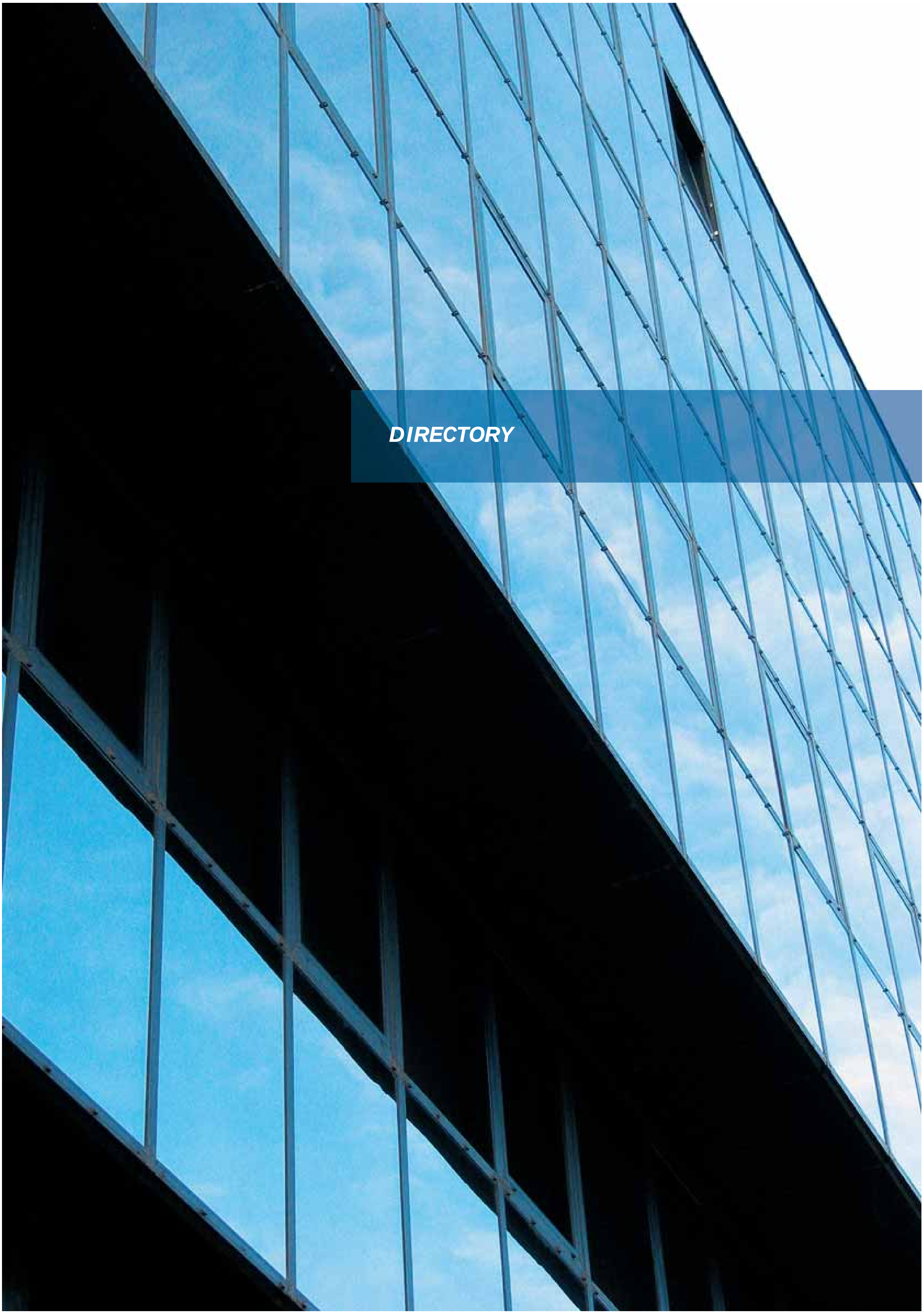
		2002 INA Matica US$ millions		2001 INA Matica US$ millions
ASSETS				
B. Non-current assets				
Intangible fixed assets		47		22
Tangible fixed assets		863		796
Investments in subsidiaries	117		162	
Investments in associate and other companies	61		120	
Total investments		178		282
Long term receivables		76		51
Total non-current assets		1,164		1,151
C. Current assets				
Inventories		301		221
Intercompany receivables	70		28	
Trade receivables	188		153	
Other receivables	25		16	
Total receivables		283		197
Investments		39		12
Cash at bank and in hand		52		37
Total current assets		675		467
D. Prepayments and accrued income		3		2
F. TOTAL ASSETS		1,842		1,620

Appendix 4 (continued)

INA Matica balance sheet translated into United States Dollars (unaudited)

31 December 2002

		2002 INA Matica US$ millions		2001 INA Matica US$ millions
EQUITY AND LIABILITIES				
A. Capital and reserves				
Paid-up share capital		1,693		1,693
Reserves (including retained losses brought forward)		(573)		(659)
Profit for the year		109		86
Translation reserve		(224)		(363)
Equity		1,005		757
B. Long term provisions		135		105
C. Non-current liabilities				
Long term loans	173		224	
Other non-current liabilities	30		27	
Total non-current liabilities		203		251
D. Current liabilities				
Intercompany payables	223		154	
Bank loans and overdrafts	40		131	
Accounts payable and other short term liabilities	200		191	
Total current liabilities		463		476
E. Accruals and deferred income		36		31
TOTAL LIABILITIES		837		863
F. TOTAL EQUITY AND LIABILITIES		1,842		1,620



DIRECTORY

Directory

INA-Industrija nafte, d.d. Zagreb
10002 ZAGREB
Avenija V. Holjevca 10
p.p. 555
Switchboard: 01/6450 000
e-mail: ina@ina.hr

INA FREE TOLL TELEPHONE - INFORMATION AND COMPLAINTS : 0800-1112

CHAIRMAN OF THE BOARD OF INA:
10002 ZAGREB
Avenija V. Holjevca 10
p.p. 555
Tel. +385 (0) 1 6450 000, 6450 100
Fax: +385 (0) 1 6452 100

Member of the Board and Executive director for E & P
10000 ZAGREB
©ubiÊeva 29
Tel. +385 (0) 1 4592 222, 4640-750
Fax. +385 (0) 1 4640 589

Member of the Board and Executive director for Refining and Wholesale
10002 ZAGREB, p.p. 555
Avenija V. Holjevca 10
Tel. +385 (0) 1 6450 000, 6450 105
Fax. +385 (0) 1 6452 105

Member of the Board and Executive director for Retail
10002 ZAGREB. p.p. 555
Avenija V. Holjevca 10
Tel. +385 (0) 1 6450 000, 6450 120
Fax. +385 (0) 1 6452 120

Member of the Board and Executive director for Finance and Controlling
10002 ZAGREB. p.p. 555
Avenija V. Holjevca 10
Tel. +385 (0) 1 6450 000, 6450 108
Fax. +385 (0) 1 6452 108

Member of the Board for coordination of privatisation
10002 ZAGREB. p.p. 555
Avenija V. Holjevca 10
Tel. +385 (0) 1 6450 000, 6450 121
Fax. +385 (0) 1 6452 120

INA-Industrija nafte, d.d. Zagreb
Strategic Development, R&D and Investments
10000 ZAGREB
LovinËiÊeva bb
Tel. +385 (0) 1 2381 122, 2381 548
Fax. +385 (0) 1 2381 694

INA-Industrija nafte d.d. Zagreb,
Human resources, payroll and general affairs
10002 ZAGREB. p.p. 555
Avenija V. Holjevca 10
Tel. +385 (0) 1 6450 000, 6450 302
Fax. +385 (0) 1 6452 120

INA-Industrija nafte d.d. Zagreb
Legal Department
10002 ZAGREB. p.p. 555
Avenija V. Holjevca 10
Tel. +385 (0) 1 6450 000, 6450 301
Fax. +385 (0) 1 6452 301

INA-Industrija nafte d.d. Zagreb
Internal audit and control
10002 ZAGREB. p.p. 555
Avenija V. Holjevca 10
Tel. +385 (0) 1 6450 000, 6450 404; Fax. +385 (0) 1 6452 404

INA-Industrija nafte d.d. Zagreb
PR and promotional activities department
10002 ZAGREB. p.p. 555
Avenija V. Holjevca 10
Tel. +385 (0) 1 6450 000, 6450 406
Fax. +385 (0) 1 6452 406

INA-Industrija nafte d.d. Zagreb
EXPLORATION AND PRODUCTION OF OIL AND GAS - E&P DIVISION
10000 ZAGREB
©ubiÊeva 29
Switchboard: +385 (0) 1 4592 222

Oil and Gas Production Sector - E&P
10000 ZAGREB
©ubiÊeva 29
Switchboard: +385 (0) 1 4592 222, 4640 488
Fax. +385 (0) 1 4640 624

Exploration department - E&P
10000 ZAGREB
©ubiÊeva 29
Switchboard: +385 (0) 1 4592 222, 4640 477
Fax. +385 (0) 1 4592 038

Development department - E&P
10000 ZAGREB
©ubiÊeva 29
Switchboard: +385 (0) 1 4592 222, 4592 853
Fax. +385 (0) 1 4640 860

Commercial Sector - E&P
10000 ZAGREB
©ubiÊeva 29
Switchboard: +385 (0) 1 4592 222, 4592 043
Fax. +385 (0) 1 4592 532

REFINING AND WHOLESALE DIVISION

Crude oil supply and logistics
10002 ZAGREB
Avenija V. Holjevca 10, p.p. 555
Tel. +385 (0) 1 /6450 000, 6450 216
Fax. +385 (0) 1 6452 523

Wholesale Sector
10002 ZAGREB
Avenija V. Holjevca 10, p.p. 555
Tel. +385 (0) 1 6450 000, 6450 502
Fax. +385 (0) 1 6452 524

Refining - Director's office
10002 ZAGREB
Avenija V. Holjevca 10, p.p. 555
Tel. +385 (0) 1 6450 000, 6450 511
Fax. +385 (0) 1 6452 511

Refinery Rijeka
51211 KOSTRENA
Tel. +385 (0) 51 203 011, 203 209
Fax. +385 (0) 51 /203 000

Refinery Sisak
44000 SISAK
Ante KovaËiÊa 1
Tel. +385 (0) 44 512 244, 511 129
Fax. +385 (0) 44 534 573

Maziva Rijeka -lubricant plant Rijeka
51000 RIJEKA
Industrijska 26
Tel. +385 (0) 51 201 011, 201 209
Fax. +385 (0) 51 201 000

Directory (continued)

RETAIL AND PROCUREMENT DIVISION

Retail Sector
Avenija V. Holjevca 10
10002 ZAGREB, p.p. 555
Tel. +385 (0) 1 6450 000, 6450 501
Fax. +385 (0) 1 6452 501

Procurement Sector
Avenija V. Holjevca 10
10002 ZAGREB, p.p. 555
Tel. +385 (0) 1 6450 000, 6450 528
Fax. +385 (0) 1 6452 528

FINANCE AND CONTROLLING

Finance Sector
Avenija V. Holjevca 10
10002 ZAGREB, p.p. 555
Tel. +385 (0) 1 6450 000, 6450 201
Fax. +385 (0) 1 6452 201

Controlling Sector
Avenija V. Holjevca 10
10002 ZAGREB, p.p. 555
Tel. +385 (0) 1 6450 000, 6450 102
Fax. +385 (0) 1 6452 102

Planning, analyses and reporting department
Avenija V. Holjevca 10
10002 ZAGREB, p.p. 555
Tel. +385 (0) 1 /6450 000, 6450 202
Fax. +385 (0) 1 6452 202

Accounting department
Avenija V. Holjevca 10
10002 ZAGREB, p.p. 555
Tel. +385 (0) 1 6450 000, 6450 203
Fax. +385 (0) 1 6452 203

IT Sector
Avenija V. Holjevca 10
10002 ZAGREB, p.p. 555
Tel. +385 (0) 1 6450 000, 6450 403
Fax. +385 (0) 1 6452 403

INA'S SUBSIDIARIES IN CROATIA

CROSCO d.o.o. Zagreb
10000 ZAGREB
Ulica grad Vukovar 18
Tel. +385 (0) 1 3652 333, 3094-377
Fax: +385 (0) 1 3096 448, 3652 292

PROPLIN d.o.o.
Savska 41
10000 ZAGREB
Tel: +385 (0) 1 6124 772
Fax. +385 (0) 1 6110 881

STSI d.o.o.
10020 ZAGREB
LovinËiÊeva bb
Tel. +385 (0) 1 2381 122, 2450 093
Fax. +385 (0) 1 2450 103

MAZIVA d.o.o.
RadniËka cesta 175
Tel. +385 (0) 1 2404 333, 2404 230
Fax. +385 (0) 1 2402 571

HOSTIN d.o.o. Zagreb
10000 ZAGREB
Ulica grada Vukovara 78
Tel. +385 (0) 1 6155 282

ITR, d.o.o. Zagreb
10000 ZAGREB
©ubiÊeva 29
Tel. +385 (0) 1 4592 691, 4553 066
Fax. +385 (0) 1 4617 953

INA'S COMPANIES ABROAD

INTERINA Ltd. London
112 Jermyn Street
London SW1Y 6LS
Great Britain
Tel: 0044 207 925 0125
Fax. 0044 207 925 0852

INTERINA d.o.o. Ljubljana
Kotnikova 5
1000 Ljubljana
Slovenija
Tel. 00386 1 3009 240
Fax. 00386 1 4320 069

HOLDINA d.o.o. Sarajevo
Ulica dr. Azize ©aÊirbegoviÊ 4b
71000 Sarajevo
Bosna i Hercegovina
Tel. 00387 33 652 404
Fax. 00387 645 151

INA Crna Gora d.o.o. Kotor
Trg Mata PetroviÊa 2
85330 Kotor
Montenegro
Tel. 00381 82 325 541
Fax. 00381 82 325 798

Impressum

Publisher
INA-Industrija nafte d.d. Zagreb

Editor - In-chief
Mijo Ivurek

Design
NORMA / Dean RoksandiÊ

Photography
Ferdo Buva, Miljenko MarohniÊ, Æeljko PauliÊ, Dean RoksandiÊ, Branimir Sterle

Realization
Agneza d.o.o., Zagreb

Notes

Notes