2003

ANNUAL REPORT

INA

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INTRODUCTION

Company Profile

INCORPORATION

The company, INA - Industrija Nafte d.d. Zagreb (INA), the parent company of INA Group, is a joint stock company owned by the Republic of Croatia and MOL, Hungarian Oil and Gas Plc (25% plus one share). INA was founded on 1 January 1964 when the operations of Naftaplin (oil and gas exploration and production) were merged with those of the refineries of Rijeka and Sisak. By the end of that decade INA had expanded to include the Zagreb refinery, Trgovina (a domestic trade organisation), the OKI and DINA organic petrochemical operations and the Kutina fertiliser plant. In 1993 INA became a share based company.

INA GROUP

INA Group comprises the parent company INA d.d. and a number of wholly and partially owned subsidiaries and associate companies. The headquarters of the group is located in Zagreb, Avenija V. Holjevca 10, Croatia. As of 31 December 2003, the group employed 16,084 personnel.

THE PRINCIPAL ACTIVITIES OF INA d.d. AND ITS SUBSIDIARIES (THE GROUP), ARE:

- exploration for and exploitation of oil and gas deposits, primarily onshore and offshore within Croatia; other licence interests are held in Angola, Egypt and Syria
- import of natural gas and the sale of imported and domestically produced natural gas to industrial consumers and municipal gas distributors
- refining and production of oil products through refineries located at Rijeka (Urinj) and Sisak, and the Rijeka (Mlaka) and Zagreb lubricants plants
- distribution of fuels and associated products through a chain of some 405 retail outlets currently in operation throughout Croatia, 6 in Slovenia, 74 in Bosnia and Herceg-ovina and 197 in Serbia which INA claims for restitution
- trading in crude oil and petroleum products
- service activities incidental to onshore and offshore oil extraction through Crosco d.o.o., the subsidiary providing drilling, workover and other oilfield services
- service activities related to oil and gas pipeline construction, construction and maintenance of processing plants and other services provided by subsidiary STSI d.o.o.
- production and marketing of lubricants, industrial greases and related products carried out by Maziva Zagreb d.o.o.
- filling and distribution of LPG (bottles, small bulks, automotive gas) by PROplin d.o.o.
- operation and management of INA's holiday homes, hotels and apartment villages carried out by HOSTIN d.o.o. Zagreb
- car and boat rental by ITR d.o.o. Zagreb

INA GROUP

INA d.d.	Major subsidiaries in Croatia	Major subsidiaries abroad
Exploration and Production	Crosco d.o.o.	INTERINA London
Refining and Wholesale	STSI d.o.o.	INTERINA Guernsey
Retail Services	Maziva Zagreb d.o.o.	INTERINA Mostar
Corporate Functions	Proplin d.o.o.	HOLDINA Sarajevo
	Hostin d.o.o.	INTERINA Ljubljana
	ITR d.o.o.	

Directors and Management

GENERAL ASSEMBLY

For each General Assembly meeting the Croatian Government and the strategic partner MOL appoint their representatives.

SUPERVISORY BOARD until 28 October 2003

Slavko Linić (Chairman)

Damir Kuštrak

Roman Nota

Božidar Pankretić

Damir Pešut

Damir Vrhovnik

MANAGEMENT BOARD until 29 October 2003

Tomislav Dragičević President of the Board

Željko Belošić Member of the Board - Executive Director, Exploration and Production

Željko Vrbanović Member of the Board - Executive Director, Refining and Wholesale

Sanjin Kirigin Member of the Board - Executive Director, Marketing

Milan Ujević Member of the Board - Executive Director, Finance and Controlling

Maja Brinar Member of the Board - Director, Privatisation

SUPERVISORY BOARD from 28 October 2003

Slavko Linić (Chairman)

Zoltán Áldott (Deputy Chairman)

Damir Kuštrak

György Mosonyi

Christian Panjol-Tuflija

Željko Pecek

MANAGEMENT BOARD from 29 October 2003

Tomislav Dragičević President of the Board

László Geszti Vice-president of the Board - Executive Director, Finance

Željko Belošić Member of the Board - Executive Director, Exploration and Production

Boris Čavrak Member of the Board - Executive Director, Refining and Wholesale

Sanjin Kirigin Member of the Board - Executive Director, Retail Services

Béla Cseh Member of the Board - Director, Corporate Services Function

Milan Ujević Member of the Board - Director, Corporate Processes Function

SUPERVISORY BOARD from 10 March 2004

Ivan Šuker (Chairman)

Zoltán Áldott (Deputy Chairman)

Ante Babić

Branimir Glavaš

Božidar Kalmeta

György Mosonyi

MANAGEMENT BOARD from 26 July 2004

Tomislav Dragičević President of the Board

László Geszti Vice-president of the Board - Executive Director, Finance

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

Zorko Badanjak Member of the Board - Executive Director, Refining and Wholesale

Josip Petrović Member of the Board - Executive Director, Retail Services

Béla Cseh Member of the Board - Director, Corporate Services Function

Tomislav Thür Member of the Board - Director, Corporate Processes Function

Management Board

Dr. sc. Tomislav Dragičević (52), doctor of chemical sciences, President of the Management Board

Appointed as general director of INA in March 2000. From June 2000, following the 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 and before that Director of Refining. He joined INA in 1977. Earlier he worked in a petrochemical plant as head of processing unit. Since 1995 he has been the fellow of the Croatian Academy of Science and Art, Section IV - Petrochemistry.

László Geszti (53), economist, Vice President of the Management Board and Chief Financial Officer

Mr. Geszti joined INA in November 2003. Before appointment to his position in INA he was Managing Director of the Refining and Marketing Division of MOL. He joined MOL in 1999 and was appointed Managing Director of Marketing Division. Before that Mr. Geszti held important managerial positions in the Hungarian oil and gas industry since 1981. He was deputy finance director of Shell operations in Hungary. In 1985 he was promoted as the CEO and Chairman of the Board. In 1992 he joined Mineralimpex, the foreign trade organization of the Hungarian oil industry, where he first worked as adviser and later as director of trade.

Željko Belošić (57), petroleum engineer, member of the Board and Executive Director of Exploration and Production

Mr. Belošić was appointed executive director of E&P in May 1999. 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, where he gathered valuable experience in onshore and offshore E&P operations.

Boris Čavrak (52), chemical engineer, member of the Board and Executive Director of Refining and Wholesale

Prior to appointment to his current position in October 2003 Mr. Čavrak was director of the Sisak refinery in the period 2000 - 2003. In the period 1988 to 1999 Mr. Čavrak was head of INA's corporate security functions. He has long experience in refining operations. In 1979 he was process optimization engineer and later became chief engineer in charge of HSE in the Sisak refinery. Mr. Čavrak is a regular member of Petroleum Academic Council of the Croatian Academy of Science and Arts.

Sanjin Kirigin (46), chemical engineer, member of the Board and Executive Director of Retail Services

Mr. Kirigin was appointed Executive Director of Retail Services in October 2003. Previously he held the position of Executive Director of Marketing from December 2001, since when he also has been a member of the Board. Earlier he was director of the Rijeka lubricants plant and, from April 2000, director of the fuels refinery Rijeka.

Béla Cseh (56), mechanical engineer, member of the Board and Director of Corporate Services

Before joining INA in November 2003, Mr. Cseh was HSE Director of MOL Group in 2003. Prior to that he was Director of Corporate Services at MOL in the period 2002 - 2003. He held the position of deputy general manager of Marketing and Logistics at Slovnaft from 2001 to 2002. Before that Mr. Cseh held different managerial positions at MOL (Chemical Division Director, Downstream deputy general manager and others).

Milan Ujević (58), economist, member of the Board and Director of Corporate Processes

Mr. Ujević was appointed to the position of director of Corporate Processes in October 2003. Prior to this position he was Director of Finance and Controlling from March 2000. He joined INA's Board in June 2000. Before his career at INA, Mr. Ujević was adviser to the general director for organization and restructuring and director of Government's Office for restructuring of state-owned enterprises.

Željko Vrbanović (58), doctor of chemical sciences, former member of the Board and Executive Director of Refining and Wholesale (until 29 October 2003)

Dr. Vrbanović, currently advisor to INA, held the position of Executive Director of Refining and Wholesale from 2000, from when he was also a member of the Board. Prior to that he was director of INTERINA Ljubljana and executive director of refining from 1993 to 1997.

ORGANIZATIONAL STRUCTURE OF INA d.d.


P. Bjedov A+
godina
40
INA
years

Foreword by the President of the Management Board

2003 - A YEAR OF POSITIVE CHANGES IN 40 YEARS OF INA'S OPERATIONS

The year 2003 was another successful year for INA. The INA Group made HRK 1.6 billion net cash in its operating activities, 51% over 2002, and generated a profit of HRK 899 million. The parent company, INA d.d., recorded a profit of HRK 813 million. This financial year was also marked by high investments in the modernisation of its two refineries and in exploration and development operations. The exploration activities in Syria were successful and resulted in significant hydrocarbon discoveries. Exploration in Egypt also shows promising prospects. Significant progress has been achived in offshore Adriatic field development works.

In 2003 MOL, Hungarian oil and gas company, became a strategic partner of INA following its purchase of 25% plus one share in INA. Together with our strategic partner we will strengthen our position in the regional market. The realisation of synergies between our two companies will help us to upgrade our performance.

EXPLORATION - INVESTMENTS FOR THE FUTURE

The correct investments are the key to successful growth and to the future of any company. In 2003 INA invested HRK 1,993 million which is a significant increase in comparison with 2002. The largest investments (HRK 1,335 million) were channelled towards E&P operations. We have continued exploration activities in Syria where three gas-condensate fields have been discovered. In Egypt INA is active on four exploration blocks. On the North Bahariya block the initial exploration well, Ganna - 1, encountered oil deposits.

The development of the North Adriatic project is also progressing well. This project involves the development of the Ivana, Ika, Ida and Marica gas fields and the construction of a subsea pipeline from the Ivana gas field to Pula on the coast. By the end of 2005, we expect to bring the gas from these offshore fields to the coast where it will enter into the natural gas transportation network. Turning to onshore projects, the new gas field Sjeće was put into production at the end of 2003. In the following years we plan additional production of 180 mcm from this field.

Modernisation of the refineries in Rijeka and Sisak represents one of INA's priority projects. During 2003 intensive preparations were made for upgrading both refineries to be able to produce derivatives compliant with European quality standards that will come into effect in 2005. In 2003 the investments in upgrading projects in refineries amounted to HRK 422 million, and they will be increased in the following years. INA is not only a production company, but it also provides retail services to customers in Croatia and in neighbouring countries. Care for our customers and meeting their demands is one of our primary goals. During 2003 INA constructed two new petrol stations and reconstructed nine existing ones. Also, we have worked intensively on the preparation of projects for the construction of ten new sites which we plan to complete during 2004. These sites will be located along the main highway routes currently under construction in Croatia. The new highway routes and service stations will contribute to the quality of services to the growing number of tourists visiting Croatia and the Adriatic resorts.

In all our activities we pay great attention to preservation of the environment. At the beginning of 2004 INA's retail business successfully passed the initial audit of its environmental management system and ISO 14001 certification was obtained. The so called 'environmental projects' financed from the EBRD loan have been almost completed. Among other projects they include the repair of sewer system in the Rijeka refinery, the protection of sea water and coastal zone, a provision for emission monitoring equipment and the construction of waste landfill Beničanci. During 2003 INA invested HRK 290 million in different safety and environmental protection measures.

As a socially responsible company INA is contributing to the community by promoting and sponsoring projects in the field of science, culture, sports and healthcare. Support for the community is an integral part of our business activities. It takes many forms and often involves partnerships with other organisations. For example, INA is participating in rewarding talented students at Croatian universities, thus investing in the creation of a highly qualified future workforce.

AMBITIOUS PLANS FOR THE FUTURE

Together with our strategic partner we will endeavour to further improve our operating and financial performance. We have already undertaken measures aimed at scrutinizing all business processes in order to make them even more transparent and aligned with best practices. We will continue the investments in refinery modernisation so that INA can produce derivatives according to European standards that are being set for the coming years. In this way we will also decrease emissions and contribute to environmental protection.

Our future results will depend on the commitment and skills of our employees. The investment projects we intend to realise represent a real challenge for INA's management and all our employees. I would like to thank our people for the successful performance we have achieved until now. We believe that together with our strategic partner we continue the journey of growth and success.

Dr Tomislav Dragičević

BUSINESS REPORT

Mission, Vision and Core Values

INA is a modern, socially responsible and transparent company in continuous dialogue with its environment, directed toward sustainable development and care for health and safety of its employees and community at large.

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.

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 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

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

EMPLOYEES

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.

Development of Human Resources

At the year-end 16,084 people were employed by the group, 10,325 of them in INA d.d. and 5,759 employees in subsidiaries. Out of total number of employees in the group 516 were in research and development, 6,474 in production, 457 in sales and marketing, 4,372 in distribution and 4,265 in administration.

INA's strategic orientation is to promote efficient and continuous education of its employees. Knowledge is increasingly becoming a key factor of success and competitive advantage of a company. INA's Training and Education Department makes constant efforts aimed at upgrading the quality of training and initiating new training programmes. During 2003 in total 10,833 employees attended different training and educational programmes (e.g. safety at work, quality management, study-as-you-work-schemes, IT training, foreign language courses and other). Within the scope of HR Information System which is already in place, we started the development of Training Module application which will enable consistent follow up of employees' skills and qualifications.

Great emphasis has been put on providing adequate training in up-to-date IT programmes as for example European Computer Driving's Licence (ECDL) project and programmes related to safety at work. Having in mind fast development of knowledge in different fields, INA decided to develop and implement interactive learning programmes adapted to challenges of modern business environment. During 2003 we have initiated e-learning pilot project. Continuously we organize training programmes for upgrading skills in different business areas, particularly executive development courses. A number of employees attended MBA School at Bled and in 2003 three employees MBA in Zagreb.

Health, Safety and Environment

Health, safety and environmental protection make an integral part of INA's business processes and are included in all development programmes and strategy. Also, HSE issues represent an important criteria for planning and making business decisions. These activities are organized in HSE Sector on corporate level, in special environmental protection departments and units across the organisation, in working groups for coordination of HSE activities and various project teams in charge of specific projects. The following organisational units which are ISO 14001 and OHSAS 18001 certified:

- Exploration and Production
- Rijeka Refinery
- Sisak Refinery
- Maziva Rijeka - lubricants plant

During 2003 INA d.d. implemented numerous activities aimed at improving environmental protection. For example, emissions monitoring was put in place at the lubricant plant Maziva Rijeka. New truck tank filling units were put into operation in the Sisak refinery which enable higher level of safety in dispatch of oil products and decrease emissions into the air. Around gas treatment plant at Molve we have in place continuous monitoring of all emissions and their possible effect on soil, water, air, plants and animals, and particularly on human health. HSE organisational units carry out control of all environmental protection parameters such as emission of harmful substances into air, waste generation and disposal, appearance of emergency situations with possible effects on the environment, regular and extraordinary inspections, expenses related to environmental protection and other issues. The environmental protection measures undertaken in 2003 resulted in lower total emissions of harmful substances into the air in comparison to 2002, as well as lower number of accidents that caused pollution of the environment. INA is paying a lot of attention to communication concerning HSE issues with all stakeholders, from our customers to local communities and government institutions. Also, we are constantly working toward achieving high level of awareness of our people about importance of health and safety measures and environmental protection. Implementation of environmental protection measures requires considerable financial resources. In order to ensure financing INA has taken an EBRD loan of EUR 36 million for the implementation of 17 environmental projects, some of which are completed while some are still under construction. INA received numerous rewards for its engagement and results achieved in HSE. In 2003 INA received award for safety at work improvements granted by Croatian Association for Upgrading Safety at Work.

Quality Management

Quality managament has a long tradition at INA. Some parts of INA's business that are in direct contact with customers have been ISO 9001 certified for several years. Changes in the environment and within the company call for constant adjustments in quality management approach. Therefore during 2003 INA's Quality Management Department carried out in-depth analyses of quality standards of key business and their descriptions in order to provide basis for setting targets and criteria for performance measurement in business processes.

All macro-organisational units which were ISO 9001:1996 certified, renewed their certification process so that they obtained ISO 9001:2000. Some new organisational units have been certified so that currently the following business units possess certificates:

- Exploration and Production
- Refining and Wholesale - Refining Sector including
  - Sisak Refinery
  - Rijeka Refinery
  - Maziva Rijeka - lubricants plant
- Retail Services - Sales & Retail Business Development Sector
- Strategic Planning, R&D and Investment Management

Our primary goal is to upgrade quality of INA's products and services so as to achieve high level of customer satisfaction. In 2004 we intend to complete the introduction of integrated business management system and monitoring of effectiveness and efficiency of the system (through KPIs) in compliance with EFQM.

Social Responsibility

As the largest Croatian company, INA contributes to socially responsible projects by providing sponsorships and donations. During 2003 INA supported various projects in culture, arts, sport, health care and humanitarian aid, environmental protection, preservation of cultural heritage and science. In the field of culture INA provided financial support to important institutions (theatres, museums, etc.), cultural events, music festivals and publishing of books. In cooperation with the Croatian Cultural Club, in 1994 INA established the so called 'INA award' for the promotion of Croatian culture in the world. Also, INA has provided grants for reconstruction of famous baroque church in Belec, the reconstruction of Paulist monastery in Lepoglava and the Benedictine monastery on the island Mljet.

INA has assisted to various projects and institutions in health care, humanitarian campaigns and sports, with particular emphasis on motorsports and important competitions. Also, INA initiated and provided support to numerous activities in the area of environmental protection for which we received rewards and acknowledgements. INA organized and supported organization of scientific conferences and forums, particularly focussed on oil and gas industry. Aid was also granted to socially handicapped groups of citizens and their associations like pensioners, victims of the war, war veterans and other. In 2003 INA's contribution for sponsorships and donations was over HRK 30 million.


CCM
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AGROKOR
Vindija
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BUSINESS ACTIVITIES

Exploration and Production

EXPLORATION OPERATIONS

In 2003 the trend of intensive exploration activities abroad has continued. Most activities were focussed on the final exploration stages on the discovered gas-condensate fields on the Hayan Block in Syria.

EXPLORATION ACTIVITIES IN CROATIA

PANNONIAN BASIN

Operations were focussed on preparation of regional studies and specific projects in the Pannonian basin with the aim of assessing remaining oil and gas reserves. Geological studies were prepared as a basis for exploration wells by which the most perspective leads will be tested. One of the significant projects is a geological study for the Kopčevec - 2 exploration which hopefully will confirm the Kopčevec - 1 exploration well results. By this well a considerable quantities of CO_2 gas were discovered in the Triassic dolomites. This discovery will contribute to the economics of EOR projects.

ADRIATIC

On the Izabela, Iris / Iva block 1,844 km of 2D seismic were surveyed and processed by EDINA, the joint company of Edison Gas, Italy and INA. A geological-geophysical interpretation of data for the Izabela block, on which two prospects were selected for drilling, has been completed and plans for the Izabela - 1 and Ivona - 1 exploration wells have been prepared. A reinterpretation of the whole exploration area on the Aiza-Laura Block has been undertaken by INAGIP within the scope of joint venture between ENI and INA. Several prospects were selected. The Karla prospect has been defined and plans for the Karla - 1 exploration well have been prepared.

EXPLORATION ACTIVITIES ABROAD

SYRIA

Hayan Block

The Hayan Block is in the second exploration stage scheduled to be completed in February 2005. So far three gas-condensate fields have been discovered: Jihar, Al Mahr and Palmyra. The exploration results indicate that the Hayan Block represents a very prospective area for discovering further hydrocarbon reserves. In order to determine the size and characteristics of the discovered fields and to explore other potential hydrocarbon reserves, drilling of three appraisal wells commenced on the Jihar field and one well on the Al Mahr field. In addition to the above mentioned wells, by the end of 2003 drilling of exploration well Jihar - 5 had started. In course of the year another exploration well Mrah - 2 was completed and additional 2D and 3D surveys were carried out. The wells Jihar - 2, 3 and 4 confirmed gas and condensate reserves in carbonate collectors C2 and D2 Kurrachine Dolomite formations. In addition, the Jihar - 2 well struck a new gas-condensate deposit within Amanus Shale and an oil deposit in the sandstones of the Amanus sand formation (L. Triassic). The evaluation of the western part of the Jihar structure was performed on the basis of the new and old 2D seismic and 3D seismic, combined with all available data obtained by the Jihar - 1, 2, 3 and 4 exploration wells. Accordingly, the exploration well Jihar - 5 was located. It should confirm and test the gas-condensate deposits within the Kurrachine Dolomite formation (C2 and D1 deposits). The appraisal well Al Mahr - 2 confirmed gas-condensate deposits within the Kurrachine Dolomite formation. During further well construction possible hydrocarbon deposits will be tested in the sandstone of the Amanus sand and Markada formation. The interpretation of new and old 2D seismic data for the Palmyra prospect was carried out during 2003. 3D seismic surveys are scheduled for the beginning of 2004. The final goal is the preparation of a geological project for the appraisal of the Palmyra - 2 well.

Block 10

During 2003 INA negotiated with the Syrian Ministry of Petroleum and Mineral Resources possible exploration of the area to the north-west from the Hayan block defined as Block 10. The Production Sharing Agreement was signed in January 2004. INA's obligations in the first exploration stage comprise drilling of two exploration wells and 500 km of 2D seismic surveys.

ALBANIA

The Dajlani - 1 exploration well (Panaya Block) proved unsuccessful. The exploration operations in Albania were abandoned and the site was closed.

EGYPT

North Eastern Desert (NED) Block

The exploration operations on the NED block are in the second stage. The El Waste - 1 exploration well did not confirm expected hydrocarbon deposits. Drilling of the Mit Ghamr NE - 1 exploration well is under way.

North Bahariya Block

The North Bahariya Block is in the third exploration stage. After interpretation of the new seismic data, the initial exploration well Ganna - 1 was located. The well encountered three important oil deposits in the sandstones of the Abu Roash formation and flowed at around 1,200 bbl oil per day. On the basis of this prospective finding, two further exploration wells are planned to be drilled in 2004 (Marmar - 1 and Ferdaus - 1).

East Yidma Block

Egyptian General Petroleum Corporation (EGPC) announced the second invitation for tenders for exploration on the East Yidma block. INA won the concession contract jointly with RWE of Germany. The contract foresees drilling of two exploration wells and 2D seismic surveys on additional 150 km. During 2004 it is planned to perform surveys and interpret seismic data. Currently, nine prospective locations have been outlined on this block.

Ras El Ush Block

The first exploration stage on this block commenced by the end of 2002 and is scheduled to last two and a half years. During this stage INA is obliged to drill one exploration well and perform 2D and 3D seismic surveys. During 2003 various geological and geophysical studies have been performed in preparation for a seismic operations programme in 2004.

EXPLORATION SUCCESS INDICATORS

In 2003 INA invested in exploration operations abroad in the amount of HRK 676 million (USD 101 million). INA's exploration efforts during 2003 yielded further discoveries in Syria, where with the Jihar - 2 well INA discovered gas-condensate reserves in Amanus shale formations and oil deposits in the Amanus sand formation and in Egypt an oil discovery from the Ganna - 1 exploration well.

INVESTMENTS IN EXPLORATION AND DEVELOPMENT IN 2003

	Total		In Croatia		Abroad	
	HRK millions	USD millions	HRK millions	USD millions	HRK millions	USD millions
Geological-geophysical services	87.4	13.1	-	-	87.4	13.1
Exploration works	588.7	87.8	-	-	588.7	87.8
Development works	202.5	30.2	139.4	20.8	63.1	9.4
TOTAL INVESTMENTS	**878.6**	**131.1**	**139.4**	**20.8**	**739.2**	**110.3**

INVESTMENTS IN EXPLORATION AND DEVELOPMENT USD / BOE

	2002	2003	Index (2003/2002)
Exploration	2.34	4.85	207
Development	1.46	1.45	99
TOTAL	**3.80**	**6.30**	**166**

Note: The investments include exploration wells in Syria on which commercial discovery has been confirmed in 2004.

DEVELOPMENT OPERATIONS

CROATIA

During 2003 development activities focussed on enhancing recovery from INA's existing onshore oil and gas fields in order to alleviate natural decline in production volumes and on new development operations in the North Adriatic.

In the Pannonian basin six wells were drilled or completed during 2003. One of them Ok-59H was drilled on the Okoli underground gas storage facility to increase the daily output. Of the other five development wells, four were on gas fields and one is an oil well. Formation remedial operations were performed on 45 existing production wells and formation fracturing on three wells. After these remedial operations and with the drilling of the new wells, gas production increased by 625,700 cm/day.

Particular attention was dedicated to Enhanced Oil Recovery (EOR) projects involving the injection of CO_2 into the oil reservoirs. INA has prepared studies for three candidate fields for the application of EOR methods (Ivanić, Žutica and Beničanci). The work has involved complex processing of data from more than 470 wells drilled in these fields, preparation of geological models for all three fields and dynamic simulation for the Ivanić field. According to preliminary indicators, after successful completion of these EOR projects, the recoverable reserves of oil could increase by 10-15%, i.e. additional 8-12 million tonnes of oil. Consequently, the EOR project is perhaps the most significant revitalisation project in INA's history. The Trade and Development Agency (TDA) of the US Government granted to INA the funds for financing the three EOR studies.

ADRIATIC

The development of the North Adriatic project is by far the most important development project in progress. Extensive project documentation was prepared in 2003 for the development activities on the Ivana, Ika, Ida and Marica fields to be carried out in 2004 and 2005 and for the construction of the sealine from the Ivana gas field to Pula. The Annamaria field was the subject of unitisation as a joint development with INA's Italian partner ENI. In addition to the production of natural gas, the North Adriatic project is important because it will provide INA with a new gas import route since the production and transportation systems from the North Adriatic will become linked with the Italian gas transportation system.

SYRIA

During 2003 preparatory activities were initiated for the development of gas and gas-condensate fields in Syria. Pre-feasibility studies for bringing the Jihar and Al Mahr fields into production were prepared and the preparation of the feasibility study by Schlumberger is in progress. Setting up of a joint company of INA and the Syrian Petroleum Company (SPC) is expected in summer 2004, and commencement of drilling of the first development wells in the Jihar field by the end of 2004.

OIL AND GAS RESERVES IN CROATIA AND ABROAD AS OF 31 DECEMBER 2003*

	Unit	Proved	Proved + probable	Proved + probable + possible
Oil	10^3 cm	8,117	8,867	17,611
Condesate	10^3 cm	2,755	2,755	4,273
Total oil+condensate	**10^3 cm**	**10,872**	**11,622**	**21,884**
Gas	10^6 cm	24,472	27,048	36,467
TOTAL OE	**10^3 cm**	**35,344**	**38,670**	**58,351**
Reserves in Croatia OE	10^3 cm	34,596	37,172	47,273

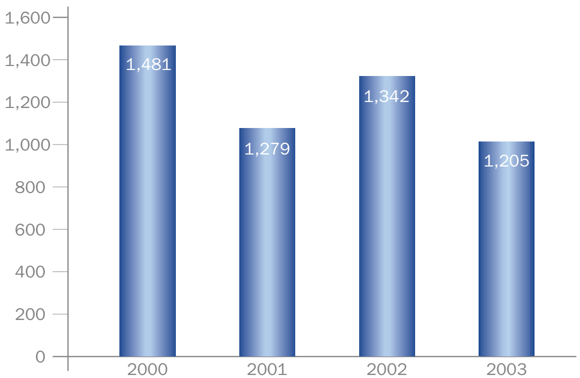
	Unit	Proved	Proved + probable	Proved + probable + possible
Oil	10^3 bbl	51,050	55,767	110,761
Condesate	10^3 bbl	17,327	17,327	26,874
Total oil+condensate	**10^3 bbl**	**68,377**	**73,094**	**137,635**
Gas	10^6 bbl	153,912	170,113	229,352
TOTAL OE	**10^3 bbl**	**222,289**	**243,207**	**366,987**
Reserves in Croatia OE	10^3 bbl	217,585	233,786	297,314

*Audited by Technica-NNC advanced well tehnology solutions, a firm of independent petroleum consultants

OIL AND GAS PRODUCTION

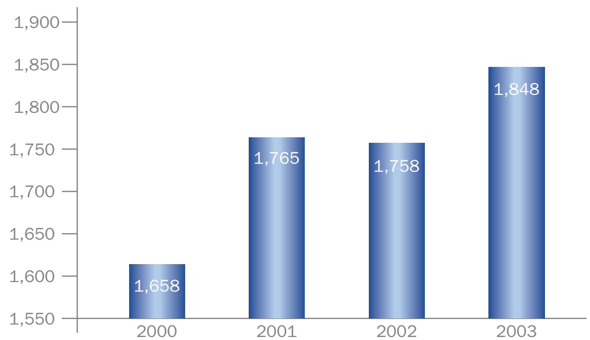
In 2003 INA produced 1.21 million tonnes of oil and condensate, comprising:

- In Croatia 725,333 tonnes of oil and 326,790 tonnes of condensate
- In Angola 85,135 tonnes of oil
- In Egypt 68,315 tonnes of oil



Oil and condensate production in 2000 - 2003 (kilotonnes)

In Croatia oil was produced from 34 fields and 747 production wells. Only 11% of wells have naturally flowing production, whilst the remainder employ artificial lift; 39% by the application of gas lift and 50% by pumping. In addition to oil, 2.3 million cm of water was extracted from the reservoirs. The water was separated, treated and reinjected into the reservoir or used for injection into the wells so as to enhance oil recovery. In order to maintain the level of production on the existing wells, 18 capital workover operations were carried out, 323 regular workover operations and 19 well equipment overhauls were performed during the year.



Natural gas production in 2000 - 2003 (million cm)

Total natural gas production was 1.85 billion cm, to which the Ivana offshore field contributed 338.9 million cm, representing INA's share under the terms of the production sharing agreement with ENI.

For the purpose of ensuring a continued supply of natural gas to the customers in Croatia INA has established the so called 'gas programme'. Within the scope of this programme the new gas field Sječe was put on stream by the end of 2003 including exploitation of gas cap in the oil field Žutica A which enabled additional production of 350,000 cm/day.

Particular attention was paid to annual overhaul of the gas treatment plants Molve. In previous years, the overhaul caused the shut down of production processes. In 2003 the overhaul of gas treatment plants and the production wells was carried out in such a way that part of the facilities remained continuously in operation. As a result, the Molve gas production

facilities supplied to the system additional volume of 50 million cm of gas. Furthermore, new electro motors have been installed in place of gas engines, which contributed to energy efficiency and improved process reliability. The underground gas storage upgrade project was completed. The operating storage capacity has been increased to 558 million cm with additional increase of hourly withdrawal rate by 30,000 cm/h during peak loads. During 2003 some 8 capital workover operations were performed on gas wells, 89 regular workover operations, 7 well equipment overhauls including numerous hydrodynamic measurements. INA has also carried out planned works on reconstruction and optimisation of gathering - dispatch systems and processing plants.

Environmental projects financed by EBRD loan funding, including reconstruction of the waste fluid outlet from the LO-CAT unit in GTP Molve, the reconstruction of the waste landfill facility at Beničanci and the construction of plant for recovery of sulphur from slurry by-product from gas treatment plant Molve III are in their final stages.The Ethane plant at Ivanić Grad produced 109,128 tonnes of LPG and virgin naphtha and 56,470 tonnes of ethane. During 2003 INA produced 2.5 million cm of water for industrial and domestic use and 0.3 million cm of geothermal water.

In order to manage better the activities related to water production compliance with effective laws and regulations and better evaluation of water resources and geothermal energy, a new Water Production organisational unit was established within the Production Sector business unit of INA's E&P Division. Apart from activities performed on the existing geothermal and water production wells, the new activities have been initiated including geological surveys, testing of existing wells and the review and completing of documentation for new prospective sites such as Bruvno, Marija Bistrica, Ivanovo Polje, Hrvatsko zagorje and Sikirevci.

Natural Gas Supply and Sales

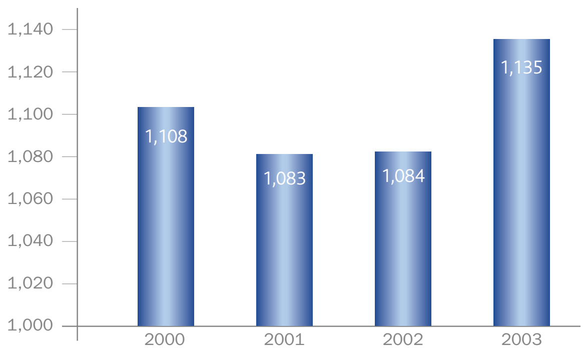
INA's gas business is organised between the Production sector of the E&P Division (comprising production facilities, gas treatment plants, the ethane plant and underground gas storage) and Commercial Sector which is responsible for the import of natural gas and its transportation to the Croatian border, wholesale of natural gas to direct consumers and international trading.

Natural Gas Supply

Production of natural gas from domestic reserves (onshore and offshore) currently meets 57% 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 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. Natural gas produced from the Ivana offshore field in the Adriatic is currently transported through Italy and Slovenia before entering the Croatian transportation network.

During 2003 INA imported 1,135 billion cm of natural gas from the Russian Federation and contracted transportation through Slovakia, Austria and Slovenia to the Croatian border. INA also operates the underground gas storage facility with total capacity of 558 million cm.

Tariff customers pay for delivered natural gas in accordance with the effective tariff system. Eligible customers conclude long-term contracts with INA. During 2003 INA supplied tariff customers with 1,538 million scm of natural gas and eligible customers with 1,175 million scm.

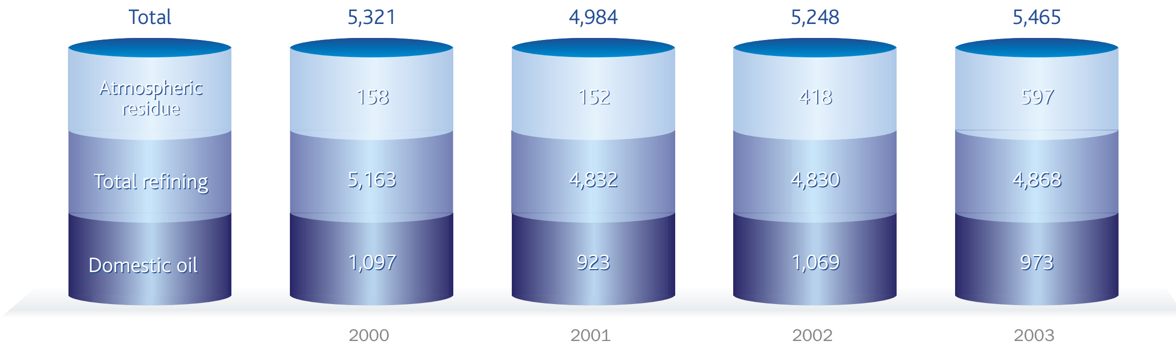


Natural gas import (million cm)

Wholesale of Natural Gas

In accordance with the Croatian energy laws INA supplies natural gas to two main groups of consumers: tariff consumers (local distribution companies and industrial consumers directly connected to the grid), and eligible customers (those whose annual consumption exceeds 100 mcm or those who have co-generation). Currently these are: HEP - Croatian electricity company, Petrokemija Kutina fertiliser plant and Pliva, pharmaceutical company.

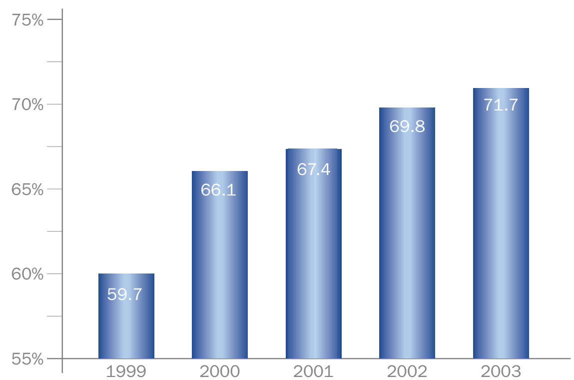
Refining and Wholesale



Oil refining (kilotonnes)

In 2003 INA's refineries enjoyed a more favourable operating environment. Refining margins improved and volumes of refined products increased from 5,248 kt in 2002 to 5,465 kt in 2003. In 2003 INA's refining activities were marked by further reduction of fixed and variable costs and intensive preparations for the new investment cycle involving modernisation of the two fuels refineries in Sisak and Rijeka and the plant Maziva Rijeka.

Through minor investments and revamps INA increased production of gasoline and diesel according to European quality standards. Thanks to such initiatives, INA was able to meet successfully not only the product quality requirements imposed in Bosnia and Herzegovina by the end of 2002, but also higher demand for European quality products in Slovenia and in the domestic market. For the purpose of improving key production parameters, particularly for the production of white products the Rijeka fuels refinery decreased the supply of atmospheric residue to the lubricant plant Maziva Rijeka which now imports necessary feedstock for lubricant production. As a result, the Rijeka refinery increased its yield of white products to 72.2%, and at the same time decreased production of fuel oil to 16.0%. During 2003 the Sisak refinery increased production of high quality white products to 70.8% and reduced the share of fuel oil to 8.6%.



Share of white products in refining

INA'S REFINED PRODUCTS OUTPUT IN 2003

Derivatives	t/year
LPG	304,168
Virgin naphtha	164,949
Motor gasoline	1,260,867
Gas oil	1,949,044
Coke	39,071
Fuel oil	772,123
Base oils	34,616
Bitumen	213,142
Lubricants	12,391
Paraffin	8,038
Other	86,579
Internal consumption and losses	628,466
TOTAL	**5,465,356**

In 2003 INA's refineries processed 5.1 million tonnes of crude oil and feedstock. Including plant Maziva Rijeka, total processed volumes were 5.5 million tonnes.

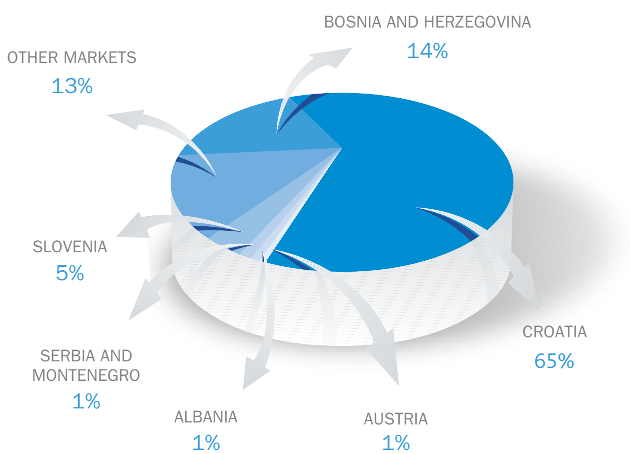
Domestic crude oil represented 20% of total processed oil. Part of the requirement for imported crude oil was met from Russian imports through Družba Adria pipeline for the Sisak refinery, whilst crude for the Rijeka refinery was supplied from Russia and other sources and delivered through the Janaf terminal in Omišalj. Great attention was paid to quality and price of crude oil as well as balancing of higher and lower sulphur content types of crude oil for the purpose of product output optimisation.

INA will continue with rationalisation and optimisation processes in order to achieve higher refining margins in line with its business strategy. During 2003 INA invested HRK 422.2 million (USD 66 million) in the reconstruction of old processing units and infrastructural facilities and the construction of new ones. As a result, the yield of LPG, motor gasoline and diesel significantly increased. The revamps included reconstruction of isomerisation unit in the Rijeka refinery (in progress), revamp of catalytic reforming and gas oil HDS in the Sisak refinery, and also the reconstruction of some infrastructural facilities.

These activities have marked the beginning of the new investment cycle and a comprehensive upgrading of INA's refineries. The upgrading programme is to be carried out in two stages and is scheduled to be completed in 2006 (the Rijeka refinery) and in 2008 (the Sisak refinery) in accordance with the business plan for the period 2004-2008. The upgrading programme includes construction of mild hydrocracking units, HDS, sulphur recovery unit and hydrogen generation unit with accompanying equipment. The estimated value of the investment programme is above USD 600 million. The implementation of the refinery upgrading programme will enable INA to produce derivatives in compliance with the European specifications to become effective in 2005 and 2009 (10 ppm sulphur content).

WHOLESALE - CROATIAN MARKET

In 2003 INA maintained high market share in the domestic market. Fuel sales increased by 8.5% with the boost of diesel sales and lower gasoline sales. Despite decreasing import



Wholesale in 2003 on main markets

tariffs, imports of derivatives have not recorded a significant rise compared to the previous year. This is the result of implementing changes to INA's sales policy and the application of regulations that prescribe holding of inventories by importers.

The share of European quality fuels on the domestic market has also increased. The demand for bitumen has been high due to intensive highway construction in Croatia. INA's share in bitumen market is 75% and it is expected to increase after completion of polymer bitumen production.

WHOLESALE - EXPORTS

Although the competition was very strong, INA maintained its leading position in the market of Bosnia and Herzegovina with 70% of total white products market share. When exporting to this market INA has exploited favourable position of the Sisak refinery and the Ploče port terminal. Sales to the Slovenian market have also increased, mainly through INTERINA Ljubljana and contracts with Petrol, Ljubljana. Sales to Serbia and Montenegro decreased as the result of Hellenic Petroleum's presence after acquisition of Jugopetrol in Montenegro. At the same time the sales to Albania were significantly higher. This market is important for INA in balancing its export products mix.

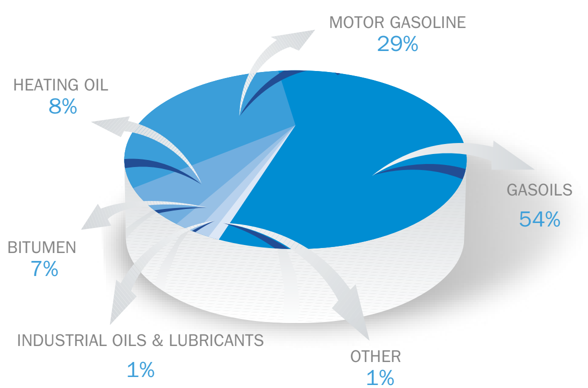
INA was also active in the Mediterranean market. During the year it benefited from good margins. The favourable position of the Rijeka refinery enabled effective scheduling of export cargos, mainly gasoline, virgin naphtha and LPG.

Retail Services

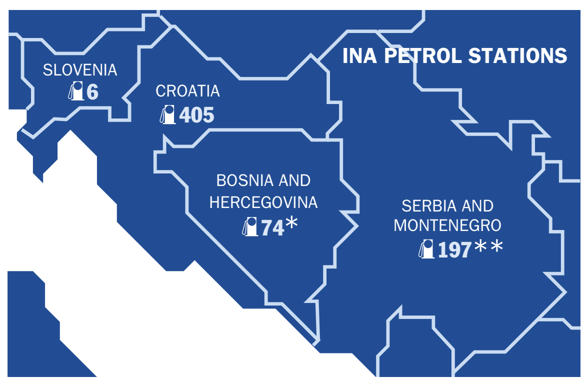
During 2003 INA's retail business was responsible for the procurement, transportation, storage, bulk sale and retail of oil products and consumer goods on the Croatian market. It is organised in 5 business centres spread geographically so as to cover the entire territory of Croatia, subdivided into 16 business units. Their role is to coordinate and provide support to the network of 405 petrol stations operated by INA d.d. In addition there are 29 other retail points (shops and retail points selling heating oil). INA also has retail network in neighbouring countries: 6 petrol stations in Slovenia, 74 petrol stations and a terminal in Bosnia & Herzegovina (part of which is not accessible) and 197 petrol stations and other facilities in Serbia which INA claims for restitution.

During 2003 total retail sales on the Croatian market were 1.84 million tonnes. These sales volumes included bulk sales (660 thousand tonnes) as well as retail (1.18 million tonnes). Fuel sales account for 83% of total sales and non-fuel 17% (relating principally to sales of LPG, lubricants and similar products and consumer goods). Shops located on petrol stations offer to consumers over 1,500 items of various consumer goods. In 2003 the turnover of such goods was HRK 416 million net of VAT, being 15% higher than in 2002. Retail activities included logistics. Transportation is carried out by road tankers, about 30% by INA's own fleet and 70% by contractors. On main transportation routes the truck fleet covered 9 million km and transported 1.8 million cm of products.

The retail business will increasingly focus on improving sales through the retail network and on its development. Under a new organisational model adopted by INA by the end of 2003, all business-to-business sales (called also bulk sales) will be transferred to Wholesale and transportation activities will be transferred to Logistics. The gradual transfer of business-to-business sales started in March 2003 (accounting for the year-on-year reduction in bulk sales recorded by the retail business from 1 million tonnes in 2002 to around 660 kt in 2003).



Sales structure of oil derivates on the Croatian market



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RETAIL NETWORK DEVELOPMENT

In 2003 INA constructed two new petrol stations and reconstructed nine existing sites. Total investments amounted to HRK 198 million. In reconstruction of the existing sites particular attention was paid to environmental protection, specifically underground water protection.

During 2003 the projects were prepared for the construction of new petrol stations along the main highway routes across Croatia: Zagreb-Varaždin, two new petrol stations; Zagreb-Split currently under construction, 6 new petrol stations; Zagreb-Bregana (near the border with Slovenia) two new petrol stations. These 10 new sites will be completed in 2004. The new highway routes and petrol stations along the highway will contribute to the quality of services to the growing number of tourists visiting Croatia and the Adriatic resorts.

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 2003 level measuring systems were installed in storage tanks on about 300 petrol stations. The system provides accurate information on fuels level in the tanks and enables improved stock control and supply management.

All retail sites have been linked to the corporate IT system and on 80 retail sites the IT equipment has been replaced so that it can support all functions necessary for modern operations. The implementation of a comprehensive quality management system introduced in 2001 has continued. In 2002 INA's retail services were ISO 9001:2000 certified. In line with growing awareness about environmental protection, we have undertaken measures aimed at management and control of all processes that impact the environment. For this purpose we have improved communications with all interested parties, organized training of our personnel and undertaken measure and actions to ensure compliance with effective laws and regulations. As the result of all these activities INA's retail business has successfully passed the initial environmental audit of its environmental management system for its ISO 14001 certificate obtained in 2004.

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. At the first Consumers Protection Conference held in Croatia in early 2004 INA was awarded a special prize recognising the continuous quality improvement of its services, the widening of its range of products and services.

A new committee has been established for the review of customers' complaints. In addition to three members from INA, the committee comprises one member from Energy Regulatory Council, one member from Consumers Society and one member from Association of Consumer Organisations. INA is focussed on informing its customers about new products and services through various promotional activities.

INA's web site (www.ina.hr) 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 provide valuable inputs for further improvement of our services.

In 2003 about 40% of total payments in retail network were effected by credit cards with total value of card transactions HRK 3.4 billion. INA card's share of total card transactions was 60%.

The new IT technology introduced on INA's retail sites includes EFTPOS (Electronic Funds Transfer Point of Sale) systems. Currently EFTPOS systems, that can accept smart cards, have been installed on 190 petrol stations. They are linked with the Retail Business Units in Rijeka, Varaždin, Karlovac and Sisak. It is expected that EFTPOS terminals in Osijek and Split Business Units will be linked to the network in the near future. In order to enable smooth card operations and to improve monitoring, a new INA Card Centre was established in 2003.

INA CARD

The INA card, first introduced in 1997, has a growing number of users every year. This trend has been reflected in fuel sales volumes which have increased by more than 9 percent in respect to 2002, with turnover of HRK 1.9 billion. As of today 157,000 cards have been issued to numerous companies and other entities in Croatia that use INA's card for payment of fuel for their company vehicles.

In a promotional campaign with Renault car dealers initiated in 2002, purchasers of Renault vehicles were granted a discount by INA card. Through this campaign INA has acquired 2,000 new customers.


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INA - MOL STRATEGIC PARTNERSHIP

MOL, INA's Strategic Partner

On 17 July 2003 the transaction agreements were signed between MOL, the Croatian Government and INA for the sale of 25% plus one share in INA d.d. The transaction was completed on 10 November 2003 following the fulfilment of conditions which included the approval of the Hungarian and Croatian antimonopoly authorities, and the waiver of the Slovenian antimonopoly approval. The total consideration paid by MOL for the stake in INA was USD 505 million.

This marked the beginning of INA's strategic partnership with MOL, the Hungarian oil and gas company, which, together with its partners Slovnaft and TVK, has become one of the leading players in the region. In accordance with the contract, MOL has nominated two members both to the Supervisory Board and the Management Board of INA, including the chief financial officer and corporate services director. These positions enable MOL to participate actively in business activities and decision making processes. However, the Republic of Croatia still stays the majority owner. By signing the transaction agreements, MOL has committed its support to INA's strategy which includes the modernisation of INA's refineries. As part of this agreement, the owners have waived dividend payments for the next three years which will enable the reinvestment of about USD 400 million in INA d.d.

INA is well positioned in the Central European oil products market with strong market positions in Croatia, Bosnia and Herzegovina, Slovenia and Albania.

As partners, INA and MOL have a unique position in the fast growing Central European oil product market, with leading

positions in Croatia, Hungary and Slovakia. In addition, they are strategically well positioned to expand further in Central Europe. MOL, INA and Slovnaft have a combined refining capacity of 450,000 bbl/day and nearly 1,200 retail stations across nine countries.

Further, the new partners (MOL and INA) have proven reserves exceeding 500 mboe and production of over 150,000 boe/day. MOL Group's future vision is the expansion in the Baltic-Adriatic corridor, which will position the company in a market of at least 120 million consumers. The realisation of this vision would significantly impact overall performance of INA and MOL, primarily by market expansion and improved downstream integration.

The strategic partnership will help INA strengthen its position in the region and achieve other benefits as well. INA has already benefited from the reduced price of crude oil purchased trough newly available chanels.

Further development of partnership relations will enable us to exploit synergies in all businesses, to align corporate cultures and to establish communication channels that will enable better utilisation of each company's specialisation.

The coordination of marketing activities, the exchange of knowledge and the implementation of joint projects will help us in the realisation of our growth targets.


MOL
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FINANCIAL RESULTS

Financial Performance

2003 FINANCIAL HIGHLIGHTS

INA Group made HRK 1.6 billion of net cash in its operating activities, 51% up on 2002. The Group's 2003 net profit before non-recurring items increased by HRK 100 million from HRK 731 million (USD 93 million) to HRK 831 million (USD 124 million) which is a 33% improvement in USD terms. Including the effects of non-recurring items the Group's 2003 net profit amounted to HRK 899 million (USD 135 million), 8% lower (in USD terms 8% higher) than the 2002 figure, HRK 982 million (USD 125 million).

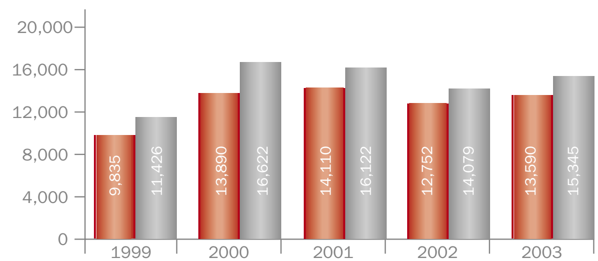
Net profit generated by INA d.d., the parent company, in 2003 amounted to HRK 813 million (USD 121 million) compared to HRK 854 million (USD 109 million) in 2002.

In 2003 INA d.d.'s Exploration & Production division made HRK 882 million operating profit, 28% below the 2002 figure as the sales of crude went down by HRK 226 million. HRK 189 million of the decrease is explained by the appreciation of HRK against USD, only slightly offset by the higher USD quoted crude prices. Lower volumes sold had a negative effect of HRK 37 million. At the same time expenses increased by HRK 84 million as a result of the write-off of the concession in Albania and a HRK 51 million asset impairment.

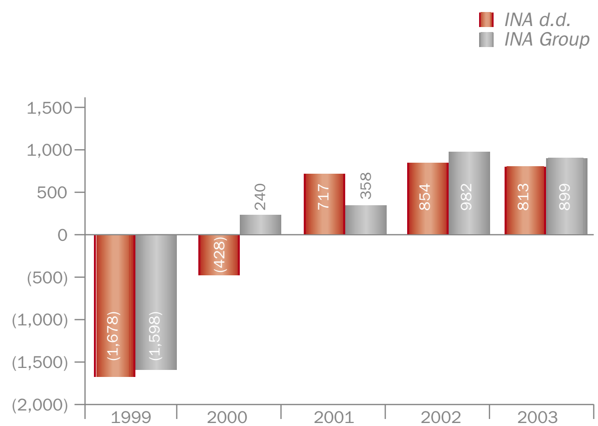
The parent company's Refining & Wholesale division showed an improving trend in 2003 with lower losses of HRK 559 million down from losses of HRK 1,275 million in 2002. This enhanced performance is primarily the result of improved refinery product margins and increased volumes. R&W plans significant capital expenditure in technology on the short and medium term aiming at quality enhancement and production increase.

INA d.d. Retail division made HRK 177 million operating profit, HRK 167 million (or 48%) below the 2002 figure. The main reason for this reduction is recategorization of income related to 26 wholesale customers which were transferred to Refining & Wholesale after recent organizational changes. In addition, expenses increased by HRK 79 million as a result of impairment testing carried out under IAS 36 (Impairment of assets). The CAPEX plan of the Retail division for the coming years includes the modernization of petrol stations.

Please note that divisional data are unaudited.



Total turnover (HRK millions)



Net profit (HRK millions)

EFFECT OF NON-RECURRING ITEMS ON NET INCOME

(HRK millions)	2003 INA Group	2002 INA Group	2003 INA d.d.	2002 INA d.d.
Proceeds on the basis of Agreement between Croatian Government and INA	102	-	102	-
Proceeds form disposal of interest in Privredna banka Zagreb	96	-	96	-
Expenses due to application of IAS 36	(130)	-	(130)	-
Gain on Plinacro disposal and intercompany dividend	-	388	-	90
Disposal of White Nights	-	22	-	188
Tax provisions	-	(159)	-	(159)
Total effect on net income	**68**	**251**	**68**	**119**

MAIN FACTORS OF FINANCIAL PERFORMANCE

- Crude oil prices, taking the average price for Brent dtd spot delivered FOB as a reference, went up by 15% compared to 2002 (from 25.02 USD/bbl to 28.83 USD/bbl), reflected in the average net price of imported crude which rose by 15 basis points
- Appreciation of HRK against the USD
- A new Tariff System for supplying natural gas to tariff customers, effective from 1 September 2002, increased gas prices for distributors and direct industrial users, while prices for so-called eligible customers are determined by separate agreements
- Non-recurring items

CASH FLOW

Operating cash flow generated by INA Group in 2003 exceeded preceding year figures by 51% and reached HRK 1,613 million. Operating cash flow before working capital changes also increased, by 4%, indicating stronger business fundamentals.

Cash used for non-current asset acquisitions amounted to HRK 2,165 million, increasing by 63%, mainly due to international exploration activities and refinery modernisation. In 2003 there were no significant net cash flows regarding long term borrowings.

During 2003 total cash for the Group was reduced by HRK 476 million to HRK 334 million. The Group's liquidity was ensured by adequate available general purpose short term facilities.

INA GROUP CASH FLOWS

(HRK millions)	2003	2002
Operating activities	1,613	1,065
Investing activities	(2,060)	(1,042)
Financing activities	(29)	33
Net increase/decrease of cash	**(476)**	**56**

LIQUIDITY AND SOLVENCY

As at 31 December 2003, INA Group's total assets amounted to HRK 15.4 billion, 65% of which related to non-current assets, compared with 61% last year. The equity/total assets ratio was 58%, a favourable change from the 2002 figure of 56%.

At the end of 2003 INA Group's long term debt totalled HRK 1.6 billion, with HRK 449 million becoming due in 2004. 84% of the long term debt was denominated in USD, 15% in EUR, and the rest in various other currencies. Virtually the whole loan portfolio bore floating interest rates, the proportion of fixed interest debt was below 1%. During 2003, the Group repaid HRK 377 million of long term debt.

Total assets of INA d.d. as at 31 December 2003 were HRK 14.0 billion, HRK 863 million higher than at the previous year-end. Total non-current assets of HRK 9,308 million increased by 12% compared to 31 December 2002, as a result of investments totalling HRK 2 billion in tangible and intangible fixed assets in 2003. Compared to the prior period, the equity/total assets ratio improved from 55% to 57%.

Parent company net debt (long term debt plus short term borrowings less cash) as at 31 December 2003 was reduced by HRK 67 million and amounted to HRK 1,089 million. Thus the level of indebtedness (net debt / net debt plus capital and reserves) had been reduced from 14% to 12%.

Long term debt of INA d.d. as at 31 December 2003 amounted to HRK 1.2 billion, with HRK 383 million of principal repayments falling due in 2004. Of the former amount 79% was USD denominated, 20% EUR denominated, while the rest were outstanding in various other currencies. Long term debt repaid in 2003 amounted to HRK 241 million.

In January 2004 INA started the process of raising long term loan financing. These efforts turned out to be very successful and as a result of oversubscription it is expected that INA will raise USD 400 million. The loan will allow INA to meet future CAPEX financing needs and reduce the fragmentation of its current debts. It was possible to achieve conditions superior to former financing due to the improved international standing of Croatia and the positive trend in INA's performance.

TAXES

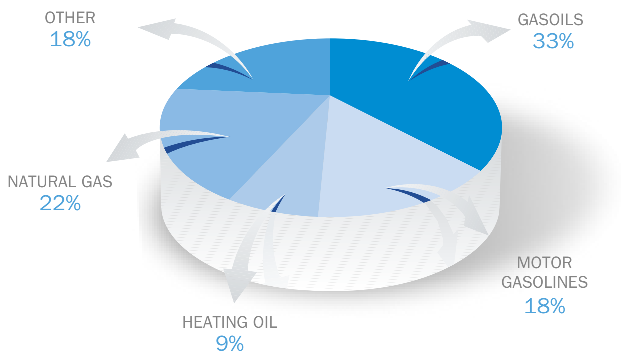
In 2003 INA d.d. tax liabilities and payments included the following:

- Excise duty of HRK 2.9 billion on refined products
- VAT of HRK 955 million
- Corporate tax of HRK 65 million

INA d.d.

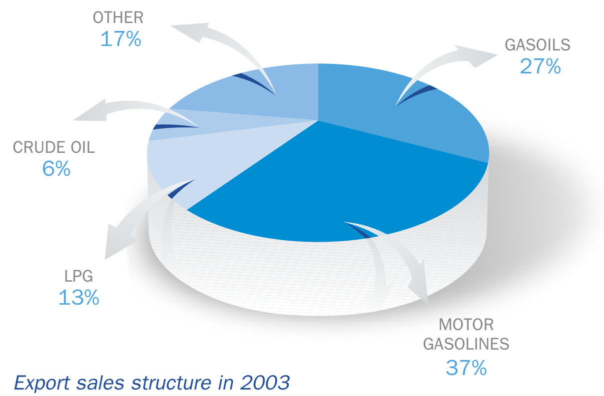
INCOME STATEMENT

INA d.d., the defining entity in INA Group, increased net sales by 7% in 2003 to HRK 13,590 million (USD 2,035 million). Domestic sales increased by HRK 601 million (6%) and represented 75% of total sales. The driving force behind the increase (HRK 512 million) was the higher volumes of refined products sold. Within this gasoil sales, driven by higher demand for diesel, increased by 11% and heating oil sales went up by 13%. Sales of motor gasolines declined by 5%. Natural gas sales remained essentially unchanged. Distributors gained additional importance in natural gas sales structure.



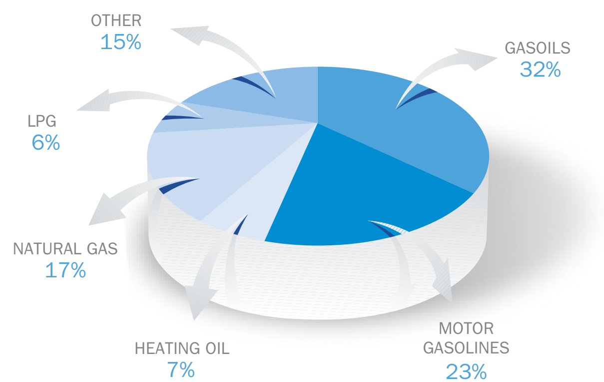
Domestic sales structure in 2003

Export sales amounted to HRK 3,425 million (USD 513 million), representing a 7% increase on the 2002 figure, positively impacted by higher volumes of motor gasolines and gasoils sold, with sales revenue increase of 35% and 20%, respectively. LPG sales grew by 10%. The decline in crude oil sales volume, due to changed dynamics of delivery, and the lower heating oil sales negated the above mentioned positive trend to some extent. Overall, export sales shifted towards products of higher value.



Export sales structure in 2003

In 2003 INA gave 53% less discount than in 2002, positively influencing sales revenue.



Total sales structure in 2003

Cost of raw materials and consumables was HRK 6,867 million, 8% higher than in the previous year, mostly due to the increased quantity of crude oil processed.

Depreciation charge decreased, despite the increase in gross book value of tangible fixed assets, because new constructions were only put into use towards the end of the year and, consequently, attracted less depreciation.

Other material costs were adversely affected by the increased price (effective from 1 September 2002) of natural gas transportation services and the greater extent of maintenance services used.

The increase in non-material costs is mainly explained by litigation costs and the higher volume of intellectual services used.

Staff costs were impacted by the settlement in 2003 of outstanding salaries that the Collective Bargaining Agreement, applicable from 1 March 2002, prescribed.

Cost of other goods for resale decreased by HRK 174 million, of which HRK 118 million was caused by the lower average cost of import gas sold, a result of the weaker USD compared to 2002. Furthermore less diesel fuel was sold from import sources.

The major items in current and non-current asset adjustments were Upstream and Retail asset impairments of HRK 130 million, and exploration cost write-offs of HRK 179 million.

Financial income was negatively affected by lower dividends and the lesser amount of gains on embedded derivatives.

The total amount of foreign exchange gains remained essentially the same. Within that foreign exchange gains on long term loans increased by HRK 70 million due to the appreciation of the HRK.

Financial expense showed a more favourable picture as compared with 2002. Interest on long term loans declined due to the lower outstanding debt. The lower overall interest expense was only partially offset by the somewhat increased other foreign exchange losses.

Corporate tax includes the positive effect of HRK 61 million of deferred tax assets that were not recognised earlier due to doubts on their future realisability. In 2003 INA d.d. exploited all the loss carry forwards arising from losses suffered in earlier periods therefore there will be no such deductions from the tax base in 2004.

BALANCE SHEET

In 2003 INA intensified its international upstream activities, especially in Syria, hence the significant jump in the value of intangible assets.

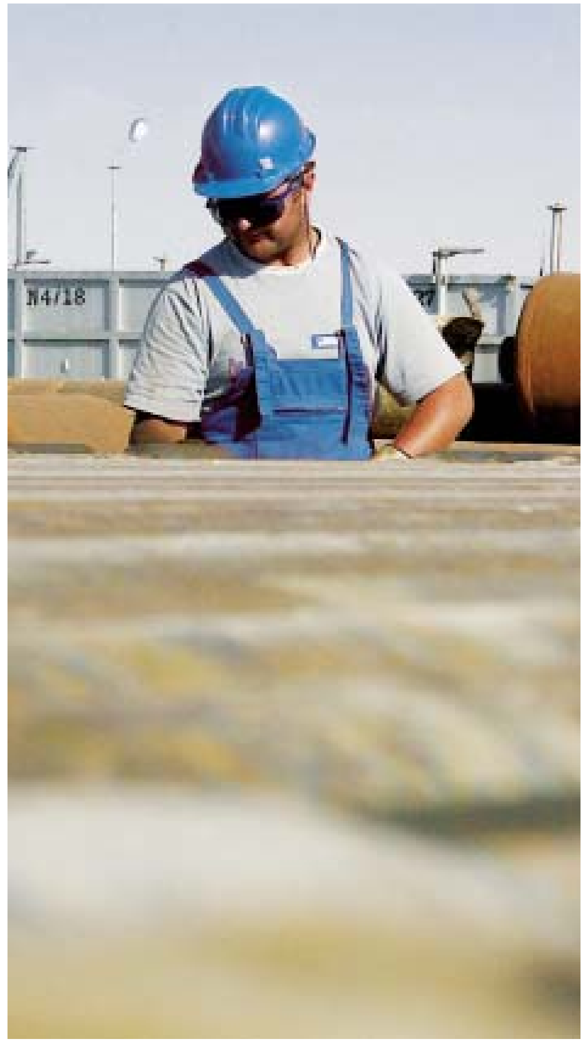
Tangible fixed assets grew as a result domestic well developments, enhancement of production in Angola and Egypt, and the domestic field development works. Refining and Wholesale carried on with the refinery modernisation projects and the rehabilitation projects financed by an EBRD loan, while Retail pursued further the strategic aim of developing the filling station network.

Investment in subsidiaries grew as a result of technical capital restructuring in some of those companies.

The decrease in long term receivables was caused by settlement of receivables owed by subsidiaries.

The lower balance of short term intercompany receivables also indicates improved collection practice. Trade receivables are of a better debtor quality therefore less provisioning was necessary and, consequently, the balance of receivables increased.

The value of year-end inventories increased slightly compared with 31 December 2002 inventory levels. The positive effect of lower quantities and unit prices of petroleum products was



neutralised by the higher value of natural gas inventories. However, higher amounts were tied up in spare parts and other supplies.

In 2003 cash and cash equivalents decreased significantly as net operating cash inflows did not cover investment cash outflows. The net repayment of borrowings further reduced the balance as no material loans were accessed during the period. Still, the available short term facilities ensured that INA would not face any liquidity problems.

Prepayments and accruals grew as a result of higher balance of VAT receivable.

The amount of long term provisions decreased slightly as new information on future decommissioning costs had become available.

The balance of long term loans decreased as a result of net repayment of outstanding debt and the appreciation of HRK against the USD.

Accounts payable and other short term liabilities grew mainly as a result of the HRK 199 million higher balance of domestic trade creditors.

The major amount in the increase of accruals and deferred income relates to accrual for litigations.

KEY FINANCIAL AND OPERATING DATA - INA GROUP

	2003	2002	Change (%)
Key financial data			
Net sales revenues (HRK millions)	15,345	14,079	9.0
EBITDA (HRK millions)	1,443	1,675	(13.9)
Operating profit (HRK millions)	587	786	(25.3)
Profit before taxation (HRK millions)	915	995	(8.0)
Net income (HRK millions)	899	982	(8.5)
Operating cash flow (HRK millions)	1,613	1,065	51.5
Capital expenditures and investments (HRK millions)	2,370	1,333	77.8
Return On Equity (ROE), %	10.32	12.37	(16.6)
Return On Capital Employed (ROACE), %	5.54	8.33	(33.5)
Key operating data			
Net proved reserves			
- crude oil (million bbl)	68.38	81.10	(15.7)
- natural gas (million boe)	153.91	155.42	(1.0)
Total hydrocarbons (million boe)	**222.29**	**236.52**	**(6.0)**
Daily average net production			
- crude oil (thousand bbl/day)	20.27	21.44	(5.5)
- natural gas (thousand boe/day)	31.45	29.91	5.1
Total hydrocarbons (thousand boe/day)	**51.72**	**51.35**	**1.0**
Natural gas sales (million cubic meters)	2,713.68	2,700.70	0.5
LPG sales (kt)	75.83	77.64	(2.3)
Crude oil and condesates sales			
- domestic sales (kt)	960.33	1,013.95	(5.3)
- export sales (kt)	153.45	233.18	(34.2)
Total crude oil and condesates sales (kt)	**1,113.78**	**1,247.13**	**(10.7)**
Number of filling stations			
- Croatia	423	411	2.9
- region*	50	50	-
Total number of filling stations	**473**	**461**	**2.6**

*excludes inaccessible sites

KEY FINANCIAL AND OPERATING DATA - INA d.d.

	2003	2002	Change (%)
Key financial data			
Net sales revenues (HRK millions)	13,590	12,752	6.6
EBITDA (HRK millions)	1,167	1,023	14.1
Operating profit (HRK millions)	500	298	67.8
Profit before taxation (HRK millions)	817	854	(4.3)
Net income (HRK millions)	813	854	(4.8)
Operating cash flow (HRK millions)	1,529	696	119.7
Capital expenditures and investments (HRK millions)	1,993	939	112.2
Return On Equity (ROE), %	10.22	11.89	(14.0)
Return On Capital Employed (ROACE), %	5.51	3.57	54.3
Key operating data			
Net proved reserves			
- crude oil (million bbl)	68.38	81.10	(15.7)
- natural gas (million boe)	153.91	155.42	(1.0)
Total hydrocarbons (million boe)	**222.29**	**236.52**	**(6.0)**
Daily average net production			
- crude oil (thousand bbl/day)	20.27	21.44	(5.5)
- natural gas (thousand boe/day)	31.45	29.91	5.1
Total hydrocarbons (thousand boe/day)	**51.72**	**51.35**	**0.7**
Natural gas sales (million cubic meters)	2,713.68	2,700.70	0.5
LPG sales (kt)	75.83	77.64	(2.3)
Crude oil and condesates sales			
- domestic sales (kt)	960.33	1,013.95	(5.3)
- export sales (kt)	153.45	233.18	(34.2)
Total crude oil and condesates sales (kt)	**1,113.78**	**1,247.13**	**(10.7)**
Number of filling stations			
- Croatia	405	393	3.1
- region*	44	44	-
Total number of filling stations	**449**	**437**	**2.7**

*excludes inaccessible sites

FINANCIAL STATEMENTS

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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 Većeslava Holjevca 10
10000 Zagreb
Republic of Croatia

10 March 2004

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS 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 2003 which comprise the balance sheets, statements of income, statements of changes in equity and statements of cash flows of the company and the group and the related notes as numbered 1 to 29. 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 62, 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.

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 2003 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).

Deloitte & Touche

Deloitte & Touche

Zagreb, 5 June 2003

Zagreb, 10 March 2004

INA GROUP CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2003

	Notes	2003 HRK millions	2002 HRK millions
Sales income	3		
a) Domestic		10,660	9,730
b) Exports		4,685	4,349
Own costs capitalised	10b	616	417
Other income		495	905
Total operating income		**16,456**	**15,401**
Cost of raw materials and consumables		(7,336)	(6,829)
Depreciation, depletion and amortisation	4	(856)	(889)
Other material costs		(1,822)	(1,590)
Non-material costs		(972)	(911)
Staff costs			
a) Wages and salaries	5	(969)	(908)
b) Pensions, health insurance and other payroll costs	5	(930)	(899)
Cost of other goods for resale		(2,366)	(2,054)
Current and non-current asset adjustments		(510)	(477)
Provisions for charges and risks		(14)	(229)
Changes in inventories of finished goods and work in progress		(94)	171
Total operating costs		**(15,869)**	**(14,615)**
Operating profit		**587**	**786**
Financial income	6	783	716
Financial expense	7	(455)	(507)
Net profit from financial activities		**328**	**209**
Profit on ordinary activities before taxation		**915**	**995**
Taxation	8	(16)	(16)
Profit on ordinary activities after taxation		**899**	**979**
Minority interests	25	-	3
Profit for the year		**899**	**982**

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

INA d.d. INCOME STATEMENT

For the year ended 31 December 2003

	Notes	2003 HRK millions	2002 HRK millions
Sales income	3		
a) Domestic		10,165	9,564
b) Exports		3,425	3,188
Own costs capitalised	10b	27	23
Other income		472	461
Total operating income		**14,089**	**13,236**
Cost of raw materials and consumables		(6,867)	(6,353)
Depreciation, depletion and amortisation	4	(667)	(725)
Other material costs		(1,546)	(1,454)
Non-material costs		(795)	(732)
Staff costs			
a) Wages and salaries	5	(638)	(616)
b) Pensions, health insurance and other payroll costs	5	(582)	(599)
Cost of other goods for resale		(1,894)	(2,068)
Current and non-current asset adjustments		(493)	(378)
Provisions for charges and risks		(9)	(186)
Changes in inventories of finished goods and work in progress		(98)	173
Total operating costs		**(13,589)**	**(12,938)**
Operating profit		**500**	**298**
Financial income	6	582	865
Financial expense	7	(265)	(309)
Net profit from financial activities		**317**	**556**
Profit on ordinary activities before taxation		**817**	**854**
Taxation	8	(4)	-
Profit for the year		**813**	**854**

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

INA GROUP CONSOLIDATED BALANCE SHEET

31 December 2003

ASSETS		Notes	2003 HRK millions	2002 HRK millions
B	**Non-current assets**			
	Intangible fixed assets	9	886	351
	Tangible fixed assets	10	8,191	7,621
	Investments in associate and other companies	12	552	531
	Long term receivables	13	238	257
	Deferred tax	8	61	-
	Total non-current assets		**9,928**	**8,760**
C	**Current assets**			
	Inventories	14	2,500	2,407
	Trade receivables, net		1,938	1,832
	Other receivables		237	239
	Total receivables		2,175	2,071
	Investments		349	261
	Cash at bank and in hand		334	831
	Total current assets		**5,358**	**5,570**
D	**Prepayments and accrued income**		**87**	**32**
F	**TOTAL ASSETS**		**15,373**	**14,362**

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

EQUITY AND LIABILITIES

		Notes	2003 HRK millions	2002 HRK millions
A	**Capital and reserves**			
	Paid-up share capital	22	9,000	9,000
	Other reserves	23	2,391	2,477
	Retained losses brought forward		(3,431)	(4,413)
	Profit for the year		899	982
	Equity		**8,859**	**8,046**
	Minority interests	25	6	(2)
	Total capital employed		**8,865**	**8,044**
B	**Long term provisions**	**21**	**965**	**1,004**
C	**Non-current liabilities**			
	Long term loans	19	1,125	1,462
	Other non-current liabilities	20	219	226
	Total non-current liabilities		**1,344**	**1,688**
D	**Current liabilities**			
	Bank loans and overdrafts	16	936	762
	Accounts payable and other short term liabilities	17	2,842	2,510
	Total current liabilities		**3,778**	**3,272**
E	**Accruals and deferred income**	**18**	**421**	**354**
	TOTAL LIABILITIES		**6,508**	**6,318**
F	**TOTAL EQUITY AND LIABILITIES**		**15,373**	**14,362**

Signed on behalf of the group on 10 March 2004

T. Dragičević

L. Geszti

INA d.d. BALANCE SHEET

31 December 2003

ASSETS

		Notes	2003 HRK millions	2002 HRK millions
B	**Non-current assets**			
	Intangible fixed assets	9	873	339
	Tangible fixed assets	10	6,530	6,165
	Investments in subsidiaries	11	1,027	841
	Investments in associate and other companies	12	443	435
	Total investments		1,470	1,276
	Long term receivables	13	374	541
	Deferred tax	8	61	-
	Total non-current assets		**9,308**	**8,321**
C	**Current assets**			
	Inventories	14	2,192	2,153
	Intercompany receivables		369	502
	Trade receivables, net	15	1,398	1,344
	Other receivables		208	182
	Total receivables		1,975	2,028
	Investments		311	275
	Cash at bank and in hand		99	371
	Total current assets		**4,577**	**4,827**
D	**Prepayments and accrued income**		**144**	**18**
F	TOTAL ASSETS		**14,029**	**13,166**

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

EQUITY AND LIABILITIES

		Notes	2003 HRK millions	2002 HRK millions
A	**Capital and reserves**			
	Paid-up share capital	22	9,000	9,000
	Other reserves	23	1,951	1,951
	Retained losses brought forward		(3,766)	(4,620)
	Profit for the year		813	854
	Equity		**7,998**	**7,185**
B	**Long term provisions**	**21**	**920**	**964**
C	**Non-current liabilities**			
	Long term loans	19	799	1,238
	Other non-current liabilities	20	203	212
	Total non-current liabilities		**1,002**	**1,450**
D	**Current liabilities**			
	Intercompany payables		1,614	1,590
	Bank loans and overdrafts	16	389	289
	Accounts payable and other short term liabilities	17	1,687	1,432
	Total current liabilities		**3,690**	**3,311**
E	**Accruals and deferred income**	**18**	**419**	**256**
	TOTAL LIABILITIES		**6,031**	**5,981**
F	**TOTAL EQUITY AND LIABILITIES**		**14,029**	**13,166**

Signed on behalf of the company on 10 March 2004

T. Dragičević

L. Geszti

INA GROUP CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2003

(HRK millions)	Notes	Share capital	Other reserves	Retained losses brought forward	Profit for the year	Total
At 31 December 2001		**9,000**	**2,579**	**(4,771)**	**358**	**7,166**
Exchange differences on translation of the financial statements of foreign entities	23	-	(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**
Exchange differences on translation of the financial statements of foreign entities	23	-	(86)	-	-	(86)
Allocation of the profit for the year to accumulated losses		-	-	982	(982)	-
Net profit for the year		-	-	-	899	899
At 31 December 2003		**9,000**	**2,391**	**(3,431)**	**899**	**8,859**

INA d.d. STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2003

(HRK millions)	Share capital	Other reserves	Retained losses brought forward	Profit for the year	Total
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**
Allocation of the profit for the year to accumulated losses	-	-	854	(854)	-
Net profit for the year	-	-	-	813	813
At 31 December 2003	**9,000**	**1,951**	**(3,766)**	**813**	**7,998**

The accompanying accounting policies and notes are an integral part of the above statements of changes in equity.

INA GROUP CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2003

	Notes	2003 HRK millions	2002 HRK millions
Operating profit		**587**	**786**
Depreciation, depletion and amortisation		856	889
Current and non-current asset adjustments		510	477
Profit from sale of subsidiaries		-	(410)
Non-cash items - provision for charges and risks		(25)	116
Other non-cash items		(18)	(26)
Operating cash flow before working capital changes		**1,910**	**1,832**
(Increase) in inventories		(214)	(457)
(Increase) in receivables and prepayments		(458)	(194)
Increase / (decrease) in payables and accruals		388	(103)
Taxes paid		(13)	(13)
Net cash inflow from operating activities		**1,613**	**1,065**
Purchase of non-current assets		(2,165)	(1,331)
Proceeds from sale of non-current assets		9	6
Proceeds from sale of subsidiary		-	288
Purchase of investments		(5)	(2)
Dividends received		117	21
Interest received		9	21
Investments and loans to third parties, net		(25)	(45)
Net cash (outflow) from investing activities		**(2,060)**	**(1,042)**
Additional long term borrowings	19	378	1,372
Repayment of long term borrowings	19	(377)	(761)
Net drawdown / (repayment) of short term borrowings		52	(399)
Interest paid on long term loans		(48)	(87)
Other long term liabilities, net		(7)	(10)
Interest paid on short term loans and other financing charges		(27)	(82)
Net cash (outflow) / inflow from financing activities		**(29)**	**33**
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		**(476)**	**56**

Analysis of changes in cash and cash equivalents	HRK millions
At 1 January 2003	**831**
Foreign exchange movements	(21)
Net cash outflow	(476)
At 31 December 2003	**334**

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

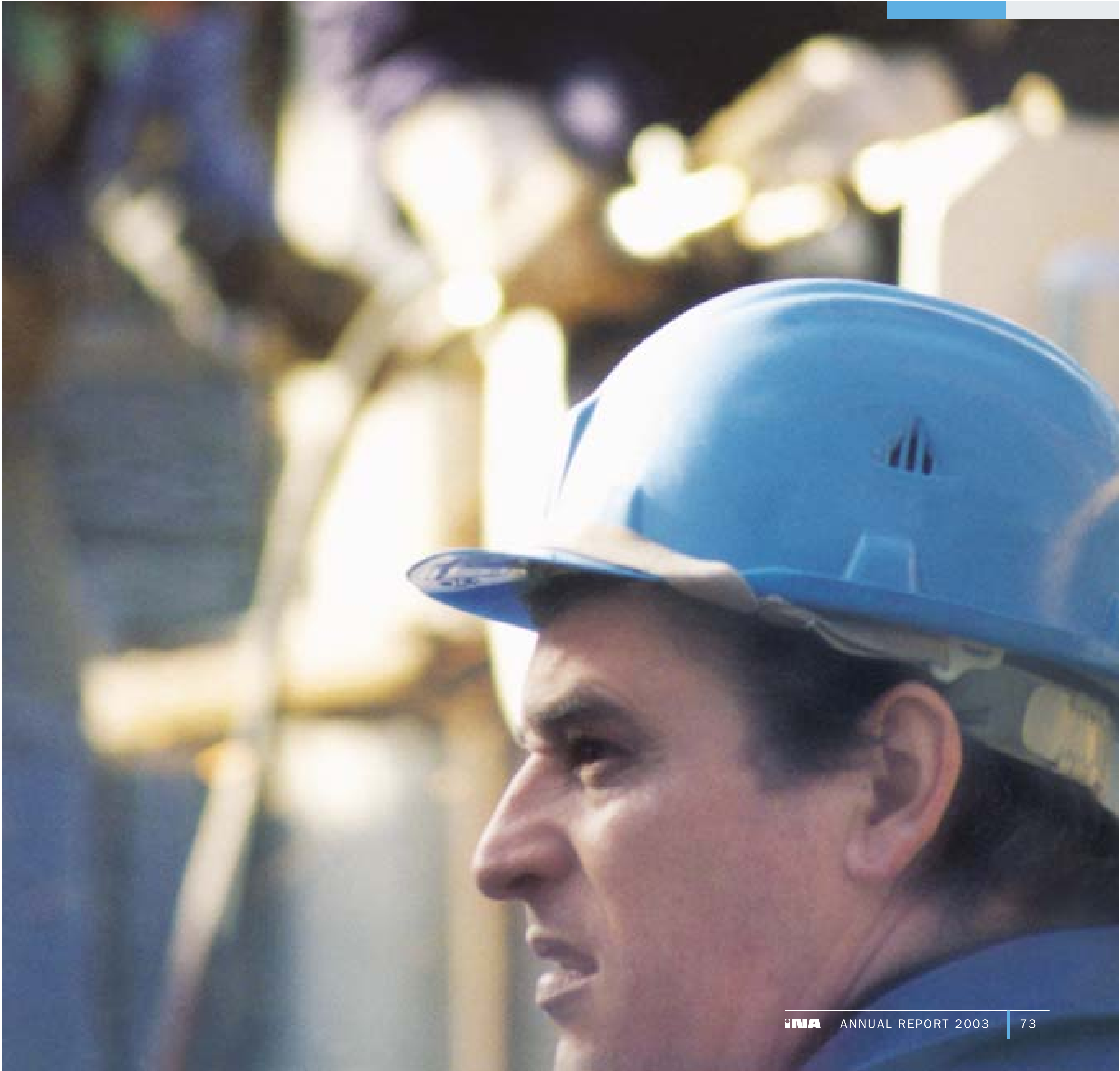
INA d.d. CASH FLOW STATEMENT

For the year ended 31 December 2003

	Notes	2003 HRK millions	2002 HRK millions
Operating profit		**500**	**298**
Depreciation charges		667	725
Current and non-current asset adjustments		493	378
Gain on asset transfer to a subsidiary		-	(34)
Non-cash items - provision for charges and risks		(30)	172
Other non-cash items		(1)	(23)
Operating cash flow before working capital changes		**1,629**	**1,516**
(Increase) in inventories		(165)	(520)
(Increase) in receivables and prepayments		(392)	(321)
Increase in payables and accruals		457	21
Net cash inflow from operating activities		**1,529**	**696**
Purchase of non-current assets		(1,698)	(930)
Proceeds from sale of non-current assets		7	4
(Purchase) of investments / receipts from sale of investment		(23)	(50)
Dividends received		102	286
Interest received		12	26
Investments and loans to third parties, net		2	(1)
Net cash (outflow) from investing activities		**(1,598)**	**(665)**
Additional long term borrowings	19	71	1,157
Repayment of long term borrowings	19	(241)	(733)
Net (repayment) of short term borrowings		(2)	(278)
Interest paid on long term loans		(41)	(84)
Other long term liabilities		(9)	(10)
Interest paid on short term loans and other financing charges		(4)	(37)
Net cash (outflow) / inflow from financing activities		**(226)**	**15**
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		(295)	46

Analysis of changes in cash and cash equivalents	HRK millions
At 1 January 2003	**371**
Foreign exchange movements	23
Net cash outflow	(295)
At 31 December 2003	**99**

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



1 GENERAL

The company, INA - Industrija Nafte d.d. Zagreb (INA) 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 Rijeka and Sisak refineries. Later 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. In March 2002 the Croatian Parliament passed the Law on the Privatisation of INA allocating INA's shares to several target groups. Under this legislation, up to 25% plus one share were to be sold to a strategic investor and 15% on the basis of public tender. Present and former employees of INA Group companies could also buy shares, while Croatian war veterans, their family members would receive shares without consideration. Remaining shares were to be exempted to the extent necessary for the compensation to the original, former owners. The Republic of Croatia will maintain ownership of over 25% plus one share, to 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 in INA. On 10 November 2003 a transaction was completed whereby MOL Rt. acquired 25% plus one share of INA.

2 ACCOUNTING POLICIES

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

(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 d.d.) FINANCIAL STATEMENTS

The company's financial statements represent the aggregation of the assets and liabilities at 31 December 2003 and of the results for the year then ended of the divisions which comprise the company, as detailed in note 11. 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. 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 2003 was 7.65 Kuna per 1 EUR and 6.12 Kuna per 1 USD (31 December 2002 - 7.44 Kuna per 1 EUR and 7.15 Kuna per 1 USD). The income statements of INA Group and INA d.d. for the years ended 31 December 2003 and 2002 translated (unaudited) into USD at average exchange rates are included as Appendices 1 and 2 to these financial statements respectively. The balance sheets of INA Group and INA d.d. at 31 December 2003 and 2002 translated (unaudited) into USD 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 un-amortised goodwill. Other material equity investments which are not held for trading are treated as available for sale and carried at cost less provision for any impairment on the basis that fair value can not be reliably measured.

Investments in immaterial associate companies and jointly controlled entities, together with investments in other im-material 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.

2 ACCOUNTING POLICIES (continued)

(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 proved developed and undeveloped 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.

(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).

(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.

2 ACCOUNTING POLICIES (continued)

(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, 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 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 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 charged or credited to the income statement, as applicable.

The fair value of embedded forward foreign exchange contracts is determined by reference to spot market foreign currency rates at the balance sheet date. The fair value of an embedded inflation index swap is determined by the reference to the cumulative inflation index differential between the contracted inflation escalator and inflation in the country where the contract is executed. The long term effects of these embedded derivatives are discounted using a discount rate similar to the interest rate on government bonds.

2 ACCOUNTING POLICIES (continued)

(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 3.

(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 the provision increases in each year to reflect the passage of time.

Where the provision relates to the decommissioning and removal of assets, such as an oil and gas production facility, the initial recognition of the decommissioning provision is treated as part of the cost of the related 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 the 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.

3 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

	2003 INA Group HRK millions	2002 INA Group HRK millions	2003 INA d.d. HRK millions	2002 INA d.d. HRK millions
Republic of Croatia	10,660	9,730	10,165	9,564
Bosnia and Herzegovina, and Slovenia	1,789	1,783	1,251	1,205
Within the European Union	1,361	1,284	2,029	1,831
Rest of the world	1,535	1,282	145	152
TOTAL	**15,345**	**14,079**	**13,590**	**12,752**

TURNOVER INFORMATION - TYPE OF BUSINESS

	2003 INA Group HRK millions	2002 INA Group HRK millions	2003 INA d.d. HRK millions	2002 INA d.d. HRK millions
Oil and gas exploration and production	767	692	544	510
Distribution and wholesaling of natural gas	2,582	2,423	2,582	2,423
Distribution and marketing of petroleum and associated products	10,818	9,922	10,464	9,819
Trading on behalf of third parties	1,178	1,042	-	-
TOTAL	**15,345**	**14,079**	**13,590**	**12,752**

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).

4 DEPRECIATION, DEPLETION AND AMORTISATION

	2003 INA Group HRK millions	2002 INA Group HRK millions	2003 INA d.d. HRK millions	2002 INA d.d. HRK millions
Intangible fixed assets (note 9)	11	5	6	3
Tangible fixed assets (note 10b)	845	884	661	722
TOTAL	**856**	**889**	**667**	**725**

5 STAFF COSTS

	2003 INA Group HRK millions	2002 INA Group HRK millions	2003 INA d.d. HRK millions	2002 INA d.d. HRK millions
Net payroll	969	908	638	616
Contributions for pensions and health insurance	626	583	428	409
Other payroll related costs	304	316	154	190
TOTAL	**1,899**	**1,807**	**1,220**	**1,215**

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

	2003 INA Group Headcount	2002 INA Group Headcount	2003 INA d.d. Headcount	2002 INA d.d. Headcount
Research and development	516	498	460	450
Production	6,474	6,259	3,146	3,248
Sales and marketing	457	436	53	56
Distribution	4,372	4,193	3,685	3,802
Administration	4,265	4,313	2,981	3,347
TOTAL	**16,084**	**15,699**	**10,325**	**10,903**

6 FINANCIAL INCOME

	2003 INA Group HRK millions	2002 INA Group HRK millions	2003 INA d.d. HRK millions	2002 INA d.d. HRK millions
Interest from financial assets	9	21	13	26
Other interest income	41	61	36	51
Dividends	117	21	102	286
Foreign exchange gains				
- long term loans (note 19)	200	105	168	98
- other foreign exchange gains	342	364	189	260
Gains on embedded derivatives	74	144	74	144
TOTAL	**783**	**716**	**582**	**865**

Dividends receivable include HRK 96 million relating to the company's disposal of 2.34 % shareholding of Privredna bank d.d.

7 FINANCIAL EXPENSE

	2003 INA Group HRK millions	2002 INA Group HRK millions	2003 INA d.d. HRK millions	2002 INA d.d. HRK millions
Interest payable in respect of long term loans	48	87	41	85
Other interest payable	103	143	94	113
Other foreign exchange losses	289	246	128	91
Other financial expenses	15	31	2	20
TOTAL	**455**	**507**	**265**	**309**

8 TAXATION

	2003 INA Group HRK millions	2002 INA Group HRK millions	2003 INA d.d. HRK millions	2002 INA d.d. HRK millions
Current tax expense	77	16	65	-
Deferred tax (benefit) relating to origination and reversal of temporary differences	(61)	-	(61)	-
Tax expense	**16**	**16**	**4**	**-**

RECONCILIATION OF THE EFFECTIVE TAX RATE TO THE APPLICABLE TAX RATE	2003 INA Group HRK millions	% of before-tax profit	2003 INA d.d. HRK millions	% of before-tax profit
Accounting profit before taxation	**915**	**100**	**817**	**100**
Tax at the applicable tax rate (20%)	183	20	163	20
Tax effect of permanent differences	60	6	59	6
Utilisation of unrecognised deferred tax assets	(166)	(18)	(157)	(19)
Current tax expense	**77**	**8**	**65**	**7**

The applicable tax rate is the profits tax rate of 20% in Croatia for 2003 (2002 - 20%). Income taxes are recorded on the basis of estimated taxable income in accordance with the fiscal laws prevailing in the country in which they originate. The company and the group are subject to corporate income tax on their taxable profits in Croatia.

8 TAXATION (continued)

CHANGES IN DEFERRED TAX ASSETS ARE AS FOLLOWS:

	INA Group HRK millions	INA d.d. HRK millions
Balance at 1 January 2003	-	-
Deferred tax benefit relating to origination of temporary differences	61	61
Balance at 31 December 2003	**61**	**61**

9 INTANGIBLE FIXED ASSETS - OIL AND GAS PROPERTIES

	INA Group HRK millions	INA d.d. HRK millions
At 31 December 2002	**351**	**339**
Additions	704	698
Charged to income statement	(158)	(158)
Amortisation charge for the year (note 4)	(11)	(6)
At 31 December 2003	**886**	**873**

10 TANGIBLE FIXED ASSETS

A) BY BUSINESS SEGMENT

INA GROUP	2003 Cost or valuation HRK millions	2003 Accumulated depreciation HRK millions	2003 Net book value HRK millions	2002 Cost or valuation HRK millions	2002 Accumulated depreciation HRK millions	2002 Net book value HRK millions
Oil and gas exploration and production, gas storage and oilfield services	19,178	14,901	4,277	18,446	14,445	4,001
Refining	8,191	6,271	1,920	7,857	6,196	1,661
Marketing (Wholesale and Retail)	3,975	2,617	1,358	3,728	2,433	1,295
Other	1,192	556	636	1,146	482	664
TOTAL	**32,536**	**24,345**	**8,191**	**31,177**	**23,556**	**7,621**

INA d.d.	2003 Cost or valuation HRK millions	2003 Accumulated depreciation HRK millions	2003 Net book value HRK millions	2002 Cost or valuation HRK millions	2002 Accumulated depreciation HRK millions	2002 Net book value HRK millions
Oil and gas exploration and production and gas storage	16,187	12,616	3,571	15,700	12,183	3,517
Refining	7,859	6,108	1,751	7,549	6,052	1,497
Marketing (Wholesale and Retail)	3,322	2,293	1,029	3,150	2,155	995
Other	371	192	179	332	176	156
TOTAL	**27,739**	**21,209**	**6,530**	**26,731**	**20,566**	**6,165**

10 TANGIBLE FIXED ASSETS (continued)

B) BY ASSET TYPE

INA GROUP	Oil and gas properties HRK millions	Land and buildings HRK millions	Plant, 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 2002	12,038	8,736	9,288	1,029	86	31,177
Additions	-	7	1,617	42	-	1,666
Change of estimate	(81)	-	-	-	-	(81)
Transfers	244	102	(434)	88	-	-
Disposals	(14)	(54)	(100)	(53)	(5)	(226)
At 31 December 2003	**12,187**	**8,791**	**10,371**	**1,106**	**81**	**32,536**
Accumulated depreciation						
At 31 December 2002	9,513	5,566	7,513	908	56	23,556
Charge for the year (note 4)	341	189	226	88	1	845
Impairment losses (notes (i) and (iv) below)	51	-	79	-	-	130
Transfers	9	(11)	-	2	-	-
Disposals	(20)	(22)	(91)	(50)	(3)	(186)
At 31 December 2003	**9,894**	**5,722**	**7,727**	**948**	**54**	**24,345**
Net book value						
At 31 December 2002	2,525	3,170	1,775	121	30	7,621
At 31 December 2003	**2,293**	**3,069**	**2,644**	**158**	**27**	**8,191**

Additions to oil and gas properties and assets under construction include own costs capitalised in 2003 of HRK 616 million (2002 - HRK 417 million). Included above are assets under construction of HRK 1,386 million (2002 - HRK 504 million) which are not yet subject to depreciation.

INA d.d.	Oil and gas properties HRK millions	Land and buildings HRK millions	Plant, 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 2002	12,085	7,014	6,943	608	81	26,731
Additions	-	97	1,197	1	-	1,295
Change of estimate	(81)	-	-	-	-	(81)
Transfers	197	53	(271)	21	-	-
Transfer of assets to newly formed subsidiaries	-	(12)	(13)	(20)	-	(45)
Disposals	(14)	(33)	(91)	(18)	(5)	(161)
At 31 December 2003	**12,187**	**7,119**	**7,765**	**592**	**76**	**27,739**
Accumulated depreciation						
At 31 December 2002	9,506	4,623	5,849	532	56	20,566
Charge for the year (note 4)	341	142	151	26	1	661
Additions	-	21	1	2	-	24
Impairment losses (notes (i) and (iv) below)	51	-	79	-	-	130
Transfers	9	(8)	(2)	1	-	-
Transfer of assets to newly formed subsidiaries	-	(9)	(11)	(19)	-	(39)
Disposals	(13)	(27)	(72)	(18)	(3)	(133)
At 31 December 2003	**9,894**	**4,742**	**5,995**	**524**	**54**	**21,209**
Net book value						
At 31 December 2002	2,579	2,391	1,094	76	25	6,165
At 31 December 2003	**2,293**	**2,377**	**1,770**	**68**	**22**	**6,530**

Additions to plant and machinery and assets under construction include own costs capitalised in 2003 of HRK 27 million (2002 - HRK 23 million).

10 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 as at 1 January 2003. 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 overall. In respect of certain specific oil and gas properties, the net book value exceeded the discounted future net revenues and the carrying values of those properties was written down accordingly and an impairment loss of HRK 51 million was charged to the income statement, included within 'current and non-current asset adjustments'.

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 2,377 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 MARKETING FIXED ASSETS

At 31 December 2003, the net book values of the company's and group's refining and marketing fixed assets were HRK 2,780 million and HRK 3,278 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.

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

As part of this review, the Management Board has assessed the carrying values of its refining and wholesale assets with reference to the discounted estimated future net cash flows from the refining and wholesale business, in accordance with the requirements of IAS 36. The company is committed to a programme of capital investment in its refineries in order to enable them to continue to produce fuels which comply with increasingly stringent environmental standards in the group's key markets, and therefore the cash flow estimates reflect assumptions about the capital expenditures required, as well as the group's margins and market share in each of its markets. Based on these cash flow estimates, the Management Board has concluded that the recoverable amount of the refining and wholesale assets, over the long term, exceeds their net book value, and therefore no impairment has arisen. The Management Board has also reviewed the company's retail network for indications of any impairment in the carrying values of individual retail outlets on an outlet-by-outlet basis. Previously, the retail network had been considered as a single cash generating unit for impairment purposes. Following this review, the carrying values of a small number of retail outlets were written down to the estimated amount recoverable, resulting in an impairment loss of HRK 79 million which has been included in 'current and non current asset adjustments' in the year.

11 INVESTMENTS IN SUBSIDIARIES

	2003 HRK millions	2002 HRK millions
Investments in share capital of subsidiaries	1,027	841

MOVEMENT IN INVESTMENTS IN SUBSIDIARIES DURING THE YEAR

	INA d.d. HRK millions
At 31 December 2002	841
Additions	186
At 31 December 2003	**1,027**

11 INVESTMENTS IN SUBSIDIARIES (continued)

The company has the following principal subsidiaries, all of which are incorporated in Croatia unless otherwise stated:

Name of company	Activity	Shareholding
Oilfield services		
*Crosco 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%
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		
*STSI d.o.o., Zagreb	Technical services	100%
*Sinaco d.o.o., Sisak (from 27 May 2003)	Security	100%
Production and trading		
*Maziva Zagreb d.o.o., Zagreb	Production and lubricants trading	100%
*Proplin d.o.o., Zagreb	Production and LPG trading	100%

**subsidiary owned directly by INA d.d.*

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	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	Foreign trading	100%
*FPC Ltd, London, UK	Foreign trading	100%
*Holdina (Guernsey) Ltd, Guernsey	Foreign trading	100%
Inter Ina (Guernsey) Ltd, Guernsey	Foreign trading	100%
Holdina 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%
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	98%
*Petrol d.d., Rijeka	Trading	83%
*INA-Osijek - Petrol d.d., Osijek	Trading	76%

**subsidiary owned directly by INA d.d.*

The group also has representative offices in the following locations:

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

12 INVESTMENTS IN ASSOCIATES AND OTHER COMPANIES

INA GROUP	2003 HRK millions	2002 HRK millions
JANAF d.d.	321	321
Joint venture company - Noble Crosco Drilling Ltd	93	79
Other investments (non-consolidated entities)	138	131
TOTAL	**552**	**531**

INA d.d.	2003 HRK millions	2002 HRK millions
JANAF d.d.	321	321
Other investments (non-consolidated entities)	122	114
TOTAL	**443**	**435**

JANAF d.d.

Name of company	Activity	Shareholding
Jadranski Naftovod d.d. (JANAF d.d.)	Pipeline ownership and operations	16.00 %

Pursuant to a Government decision of 8 March 2002, the company transferred to the Government 21.37% of the equity in JANAF d.d., reducing the company's investment to 16.00%. As explained in note 28, a substantial portion of the trading income of JANAF d.d. is derived from INA. The investment is carried at cost on the basis that there is no reliable measure of fair value of the company's shareholding.

JOINT VENTURE COMPANY - NOBLE CROSCO DRILLING

	2003 HRK millions	2002 HRK millions
Group's share of net assets on formation	114	114
Cumulative share of profit since formation	15	14
	129	**128**
Cumulative foreign currency translation adjustment	10	(1)
Less unamortised negative goodwill	(46)	(48)
Investment in joint venture company at 31 December	**93**	**79**

Name of company	Activity	INA Group shareholding
Noble Crosco Drilling Ltd.	Platform ownership and drilling services	50.00 %

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 Limited 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 d.d. HRK millions
At 31 December 2002	**131**	**114**
Additions	25	25
Amounts written off	(21)	(20)
Other	3	3
At 31 December 2003	**138**	**122**

12 INVESTMENTS IN ASSOCIATE AND OTHER COMPANIES (continued)

OTHER INVESTMENTS (continued)

Name of company	Activity	INA Group shareholding
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	Research, development and hydrocarbon production	50%
Polybit d.o.o., Rijeka (from 25 August 2003)	Production & trade of petroleum products	50%
Luk-INA Limited, British Virgin Islands (liquidated in May 2003)	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%
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 (to 30 July 2003)	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 (in liquidation)	Football club	6%
BINA - Fincom d.d., Zagreb	Transport	5%
Željezara Sisak d.d., Sisak (in liquidation)	Steel production	5%
PKP d.d., Potpićan (in liquidation)	Industrial	3%
Privredna Banka d.d., Zagreb (to 22 January 2003)	Banking	2.34%

None of the above investments with shareholdings in excess of 20% has 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 the company 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.

13 LONG TERM RECEIVABLES

INA GROUP	2003 HRK millions	2002 HRK millions
Amounts receivable in respect of collective consumption assets sold	213	223
Other long term receivables	25	34
TOTAL	**238**	**257**

INA d.d.	2003 HRK millions	2002 HRK millions
Amounts receivable in respect of collective consumption assets sold	213	223
Long term receivables from Crosco	47	117
Long term receivables from Proplin	68	34
Other long term receivables	46	167
TOTAL	**374**	**541**

14 INVENTORIES

INA GROUP	2003 HRK millions	2002 HRK millions
Crude oil	634	627
Refined products	939	1,024
Spare parts, materials and supplies	543	471
Gas inventories	384	285
TOTAL	**2,500**	**2,407**

INA d.d.	2003 HRK millions	2002 HRK millions
Crude oil	634	627
Refined products	862	965
Spare parts, materials and supplies	312	276
Gas inventories	384	285
TOTAL	**2,192**	**2,153**

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

15 TRADE RECEIVABLES OF THE COMPANY

Trade receivables of the company of HRK 1,398 million (2002 - HRK 1,344 million) are stated net of provisions for doubtful receivables. Other income in 2003 includes an amount of HRK 113 million relating to the write back of provisions against trade receivables recorded in 2002 and previous years.

16 BANK LOANS AND OVERDRAFTS

	Repayment terms	Security/ guarantee	2003 HRK millions	2002 HRK millions
INA d.d.				
Overdrafts and short term loans			6	7
Current portion of long term loans (note 19)			383	282
Total INA d.d.			**389**	**289**
INA Group				
BNP Paribas (USD)	by 22.01.2004.	INA d.d. guarantee	285	289
Nova Ljubljanska banka, Ljubljana (SIT)	by 03.09.2004.	INA d.d. guarantee	6	-
Natexis Bank (USD)	by 30.01.2004.	INA d.d. guarantee	40	-
Raiffeisenbank (EUR, USD and HRK)	by 31.12.2004.	INA d.d. guarantee	33	22
OIB Oman (USD)	by 31.12.2004.	INA d.d. guarantee	12	7
Fortis Bank (USD)	by 31.12.2003.	INA d.d. guarantee	-	46
Zagrebačka banka, Zagreb (EUR)	by 31.12.2004.	INA d.d. guarantee	23	25
Privredna banka, Zagreb (HRK)	by 31.12.2004.	INA d.d. guarantee	13	-
HVB Bank Croatia (USD)	by 31.12.2003.	INA d.d. guarantee	-	31
Hrvatska poštanska bank (USD and EUR)	by 31.12.2004.	INA d.d. guarantee	23	11
Splitska banka (USD)	by 31.12.2004.	INA d.d. guarantee	30	-
Other overdrafts and short term loans			16	13
Current portion of long term loans (note 19)			66	29
Total INA Group			**936**	**762**

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 Inter Ina Guernsey and Inter Ina Limited, wholly owned subsidiaries (note 11). These loans are typically settled in full every 60 days on a revolving basis.

17 ACCOUNTS PAYABLE AND OTHER SHORT TERM LIABILITIES

INA GROUP	2003 HRK millions	2002 HRK millions
Trade payables	2,099	1,823
Production and sales taxes payable and other taxes	439	418
Payroll and payroll taxes	158	162
Other creditors	146	107
TOTAL	**2,842**	**2,510**

INA d.d.	2003 HRK millions	2002 HRK millions
Trade payables	1,109	888
Production and sales taxes payable and other taxes	436	401
Payroll and payroll taxes	101	113
Other creditors	41	30
TOTAL	**1,687**	**1,432**

18 ACCRUALS AND DEFERRED INCOME

INA GROUP	2003 HRK millions	2002 HRK millions
Accrued interest - long term loans	20	17
Other accruals and deferred income	401	337
TOTAL	**421**	**354**

INA d.d.	2003 HRK millions	2002 HRK millions
Accrued interest - long term loans	20	17
Other accruals and deferred income	399	239
TOTAL	**419**	**256**

19 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 2003 and 2002 are analysed as follows:

	Loan description	Loan currency	2003 HRK millions	2002 HRK millions
Mizuho / Zagrebačka banka	Syndicates/revolving	USD	787	1,072
Banco Commerciale Italiana	Pipeline construction	USD	118	201
London Club	Series A and B Bonds	USD	2	3
Paris Club	Original and Bilateral	various	79	87
Montana Gas	Gas supply loan	EUR	74	95
Hypovereins Bank	Various	EUR	20	32
EBRD	Environmental	EUR	102	30
			1,182	**1,520**
Payable within 1 year			(383)	(282)
Total long term loans - INA d.d.			**799**	**1,238**
Other long term group loans			392	253
Payable within 1 year			(66)	(29)
Total long term loans - INA Group			**1,125**	**1,462**

INA GROUP	2003 Weighted average interest rate (%)	2002 Weighted average interest rate (%)	2003 HRK millions	2002 HRK millions
Bank loans in USD	3.09	3.71	1,325	1,552
Bank loans in EUR	4.82	5.43	231	202
Bank loans in JPY	5.17	5.17	17	18
Bank loans in other currencies	4.03	4.25	1	1
TOTAL			**1,574**	**1,773**
Payable within 1 year			(449)	(311)
Total long term loans - INA Group			**1,125**	**1,462**

INA d.d.	2003 Weighted average interest rate (%)	2002 Weighted average interest rate (%)	2003 HRK millions	2002 HRK millions
Bank loans in USD	3.02	3.62	933	1,308
Bank loans in EUR	4.82	5.43	231	193
Bank loans in JPY	5.17	5.17	17	18
Bank loans in other currencies	4.03	4.25	1	1
TOTAL			**1,182**	**1,520**
Payable within 1 year			(383)	(282)
Total long term loans - INA d.d.			**799**	**1,238**

MATURITY OF LOANS SUMMARISED	2003 INA Group HRK millions	2002 INA Group HRK millions	2003 INA d.d. HRK millions	2002 INA d.d. HRK millions
Current portion of long term debt	449	311	383	282
Maturity one to two years	460	468	359	415
Maturity two to three years	441	443	330	400
Maturity three to four years	104	407	27	364
Maturity four to five years	65	59	28	16
Maturity over five years	55	85	55	43
TOTAL	**1,574**	**1,773**	**1,182**	**1,520**

19 LONG TERM LOANS (continued)

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

	INA Group HRK millions	INA d.d. HRK millions
At 31 December 2002	**1,773**	**1,520**
New loans	378	71
Repayments	(377)	(241)
Foreign exchange translation (gain)	(200)	(168)
At 31 December 2003	**1,574**	**1,182**
Payable within 1 year (included within bank loans and overdrafts - note 16)	(449)	(383)
Payable after more than 1 year	**1,125**	**799**

The principal long term loans outstanding at 31 December 2003 and the principal new loans drawn down and repaid during 2003 were as follows:

a) MIZUHO Corporate Bank LTD and Zagrebačka banka

During 2002, the company entered into a USD 150 million long term financing arrangement with MIZUHO Corporate Bank LTD and Zagrebačka banka. The loan is denominated in USD and USD 129 million (HRK 787 million) had been drawn down at 31 December 2003. This loan is repayable in seven equal semiannual instalments and bears interest at LIBOR plus 1.3% annually.

b) London and Paris Clubs

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 2002 in consideration for the disposal by the company of its 100% interest in Plinacro d.o.o., Zagreb and 21.37% of the equity in JANAF d.d. The company's residual long term liabilities to the London and Paris Clubs are HRK 2 million and HRK 79 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 in the former Yugoslavia. Interest is payable on 31 January and 31 July annually.

c) Banco Commerciale Italiana

The long term loan from Banco Commerciale Italiana is a gas pipeline construction facility denominated in USD. The loan is secured by two letters of credit in the amount of 1/20 of drawndown tranches and interest is payable at LIBOR plus 2% per annum. The balance outstanding at 31 December 2003 was USD 19 million (HRK 118 million).

20 OTHER LONG TERM LIABILITIES

INA GROUP	2003 HRK millions	2002 HRK millions
Liabilities to Government for sold apartments	142	148
Deferred income for sold apartments	61	64
Other long term liabilities	16	14
TOTAL	**219**	**226**

INA d.d.	2003 HRK millions	2002 HRK millions
Liabilities to Government for sold apartments	142	148
Deferred income for sold apartments	61	64
TOTAL	**203**	**212**

21 PROVISIONS

INA GROUP (HRK millions)	Decommissioning	Other	Total
At 31 December 2002	**888**	**116**	**1,004**
Charge for the year	67	-	67
Effect of change in estimates, capitalised (note 10b)	(81)	-	(81)
Provision utilised during the year	(23)	(2)	(25)
At 31 December 2003	**851**	**114**	**965**

INA d.d. (HRK millions)	Decommissioning	Other	Total
At 31 December 2002	**888**	**76**	**964**
Charge for the year	67	-	67
Effect of change in estimates, capitalised (note 10b)	(81)	-	(81)
Provision utilised during the year	(23)	(7)	(30)
At 31 December 2003	**851**	**69**	**920**

22 PAID-UP SHARE CAPITAL

The share capital of the company was redenominated into Kuna as part of the company's formal registration with the Croatian courts in April 1995. Pursuant to a resolution of the Commercial Court in October 2001, the share capital of the company was adjusted to HRK 9,000 million. The adjustment was effected through a transfer from other reserves.

INA GROUP AND INA d.d.	2003 HRK millions	2002 HRK millions
10 million shares (HRK 900 each)	9,000	9,000

23 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

INA GROUP HRK millions	Combined reserves at 31 December 1993	Foreign currency translation reserve	Other reserves	Total
At 31 December 2002	2,132	(102)	447	2,477
Movements during 2003	-	(86)	-	(86)
At 31 December 2003	**2,132**	**(188)**	**447**	**2,391**

INA d.d. HRK millions	Combined reserves at 31 December 1993	Other reserves	Total
At 31 December 2002	1,667	284	1,951
At 31 December 2003	**1,667**	**284**	**1,951**

24 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 11) and a 21.37% equity interest in JANAF d.d. (see note 12) to the Croatian Government in consideration for the assumption by the Government of long term loans payable to the London and Paris Clubs of USD 172 million (HRK 1,438 million) (see note 19). The transactions resulted in a gain on disposal in 2002 of HRK nil and HRK 388 million in the company and the Group respectively.

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 USD 38.4 million, giving rise to a gain on disposal at HRK 22 million included in other income in 2002.

In addition, a further amount of USD 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 (USD 5 million) and 30 September 2003 (USD 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 USD 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 either 2002 or 2003.

25 MINORITY INTERESTS

	INA Group HRK millions
At 31 December 2002	(2)
Acquisition of minority interests	8
At 31 December 2003	**6**

26 COMMITMENTS

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

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

Details of guarantees relating to short term bank loans and overdrafts are provided in note 16.

27 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 21), 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 (2002 - HRK 144 million) 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

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.

28 RELATED PARTY TRANSACTIONS

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

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 11), reported consolidated turnover of HRK 1,409 million in 2003 (2002 - HRK 1,242 million) of which HRK 640 million (2002 - HRK 520 million) represented sales, principally for oilfield services, directly to INA d.d. 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 and Sinaco d.o.o. which was formed during 2003.

The company is also the principal customer of JANAF d.d. in which the company holds a 16% (during 2002 - 38%) interest (note 12). Approximately HRK 56 million of JANAF d.d.'s turnover of HRK 329 million in 2003 (2002 - HRK 75 million and HRK 289 million respectively) represented sales income from INA d.d. 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 USD 172 million of long term debt by the Government (note 24).

29 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 USD at current market prices. Derivatives contracts are used to a very limited extent to reduce the group's exposure to short term USD oil price fluctuations, which affect the group's margins and cash flow. At 31 December 2003 and 2002 there were no open derivatives contracts.

The group's largest markets are the Croatian refined products and wholesale gas markets.

29 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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 respect to refined product prices changed significantly, with effect from January 2001, to a regime where prices are adjusted every fifteen days according to an agreed formula based on market (Platts) prices.

The group also imports a significant proportion of its overall gas requirement, the purchase price for which is set on a quarterly basis in USD. 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 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 19.

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 USD. 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.

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 86 million (2002 - HRK 102 million foreign exchange gain), which are credited directly to reserves in accordance with IAS 21 (note 23).

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 2003 and 2002 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 Standard 39 'Financial Instruments: Recognition and Measurement', the group accounts for embedded derivatives on 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 IAS 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 d.d. HRK millions
Fair value at 1 January 2003	**199**
Financial income relating to the net change in fair value in the year (note 6)	74
Fair value at 31 December 2003	**273**

APPENDIX 1

INA GROUP CONSOLIDATED INCOME STATEMENT TRANSLATED INTO USD (unaudited)

For the year ended 31 December 2003

	2003 USD millions	2002 USD millions
Sales income		
a) Domestic	1,596	1,241
b) Exports	702	555
Own costs capitalised	92	53
Other income	74	115
Total operating income	**2,464**	**1,964**
Cost of raw materials and consumables	(1,098)	(871)
Depreciation, depletion and amortisation	(129)	(113)
Other material costs	(273)	(203)
Non-material costs	(146)	(116)
Staff costs		
a) Wages and salaries	(145)	(116)
b) Pensions, health insurance and other payroll costs	(139)	(115)
Cost of other goods for resale	(354)	(262)
Current and non-current asset adjustments	(76)	(61)
Provision for charges and risks	(2)	(29)
Changes in inventories of finished goods and work in progress	(14)	22
Total operating costs	**(2,376)**	**(1,864)**
Operating profit	**88**	**100**
Financial income	117	91
Financial expense	(68)	(64)
Net profit from financial activities	**49**	**27**
Profit on ordinary activities before taxation	**137**	**127**
Taxation	(2)	(2)
Profit on ordinary activities after taxation	**135**	**125**
Minority interests	-	-
Profit for the year	**135**	**125**

APPENDIX 2
INA d.d. INCOME STATEMENT TRANSLATED INTO USD (unaudited)

For the year ended 31 December 2003

	2003 USD millions	2002 USD millions
Sales income		
a) Domestic	1,522	1,220
b) Exports	513	407
Own costs capitalised	4	3
Other income	71	58
Total operating income	**2,110**	**1,688**
Cost of raw materials and consumables	(1,028)	(810)
Depreciation, depletion and amortisation	(100)	(93)
Other material costs	(232)	(185)
Non-material costs	(119)	(93)
Staff costs		
a) Wages and salaries	(96)	(79)
b) Pensions, health insurance and other payroll costs	(87)	(76)
Cost of other goods for resale	(284)	(264)
Current and non-current asset adjustments	(73)	(48)
Provisions for charges and risks	(1)	(24)
Changes in inventories of finished goods and work in progress	(15)	22
Total operating costs	**(2,035)**	**(1,650)**
Operating profit	**75**	**38**
Financial income	87	110
Financial expense	(40)	(39)
Net profit from financial activities	**47**	**71**
Profit on ordinary activities before taxation	**122**	**109**
Taxation	(1)	-
Profit for the year	**121**	**109**

APPENDIX 3
INA GROUP CONSOLIDATED BALANCE SHEET TRANSLATED INTO USD (unaudited)

31 December 2003

ASSETS		2003 USD millions	2002 USD millions
B	**Non-current assets**		
	Intangible fixed assets	145	49
	Tangible fixed assets	1,339	1,067
	Investments in associate and other group companies	90	74
	Long term receivables	39	36
	Deferred tax	10	-
	Total non-current assets	**1,623**	**1,226**
C	**Current assets**		
	Inventories	409	337
	Trade receivables, net	317	256
	Other receivables	38	34
	Total receivables	355	290
	Investments	57	36
	Cash at bank and in hand	55	116
	Total current assets	**876**	**779**
D	**Prepayments and accrued income**	**14**	**5**
F	**TOTAL ASSETS**	**2,513**	**2,010**

EQUITY AND LIABILITIES

		2003 USD millions	2002 USD millions
A	**Capital and reserves**		
	Paid-up share capital	1,693	1,693
	Reserves (including retained losses brought forward)	(364)	(489)
	Profit for the year	135	125
	Translation reserve	(16)	(203)
	Equity	**1,448**	**1,126**
	Minority interests	1	-
	Total capital employed	**1,449**	**1,126**
B	**Long term provisions**	**158**	**141**
C	**Non-current liabilities**		
	Long term loans	184	205
	Other non-current liabilities	36	31
	Total non-current liabilities	**220**	**236**
D	**Current liabilities**		
	Bank loans and overdrafts	153	107
	Accounts payable and other short term liabilities	464	351
	Total current liabilities	**617**	**458**
E	**Accruals and deferred income**	**69**	**49**
	TOTAL LIABILITIES	**1,064**	**884**
F	**TOTAL EQUITY AND LIABILITIES**	**2,513**	**2,010**

APPENDIX 4
INA d.d. BALANCE SHEET TRANSLATED INTO USD (unaudited)

31 December 2003

ASSETS		2003 USD millions	2002 USD millions
B	**Non-current assets**		
	Intangible fixed assets	143	47
	Tangible fixed assets	1,067	863
	Investments in subsidiaries	168	117
	Investments in associate and other companies	72	61
	Total investments	240	178
	Long term receivables	61	76
	Deferred tax	10	-
	Total non-current assets	**1,521**	**1,164**
C	**Current assets**		
	Inventories	358	301
	Intercompany receivables	60	70
	Trade receivables	228	188
	Other receivables	35	25
	Total receivables	323	283
	Investments	51	39
	Cash at bank and in hand	16	52
	Total current assets	**748**	**675**
D	**Prepayments and accrued income**	**24**	3
F	TOTAL ASSETS	**2,293**	**1,842**

EQUITY AND LIABILITIES

		2003 USD millions	2002 USD millions
A	**Capital and reserves**		
	Paid-up share capital	1,693	1,693
	Reserves (including retained losses brought forward)	(283)	(573)
	Profit for the year	121	109
	Translation reserve	(224)	(224)
	Equity	**1,307**	**1,005**
B	**Long term provisions**	**150**	**135**
C	**Non-current liabilities**		
	Long term loans	131	173
	Other non-current liabilities	33	30
	Total non-current liabilities	**164**	**203**
D	**Current liabilities**		
	Intercompany payables	264	223
	Bank loans and overdrafts	64	40
	Accounts payable and other short term liabilities	275	200
	Total current liabilities	**603**	**463**
E	**Accruals and deferred income**	**69**	**36**
	TOTAL LIABILITIES	**986**	**837**
F	**TOTAL EQUITY AND LIABILITIES**	**2,293**	**1,842**

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