INA

Annual Report 2004

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Table of Contents

6 **Company Profile**
Incorporation
INA Group
The Principal Activities of INA d.d. and its Subsidiaries
Mission, Vision and Core Values

12 **Foreword by the President of the Management Board**

18 **Directors and Management**
General Assembly
Supervisory Board (from 28 October 2003)
Supervisory Board (from 10 March 2004)
Management Board (from 29 October 2003)
Management Board (from 26 July 2004)

26 **Business Report**
Development of Human Resources
Health, Safety and Environment
Quality Management
Social Responsibility

36 **Business Activities**
Exploration and Production
Refining and Wholesale
Retail Services

64 **Organizational Chart of INA Group**
Organizational Structure of INA d.d.

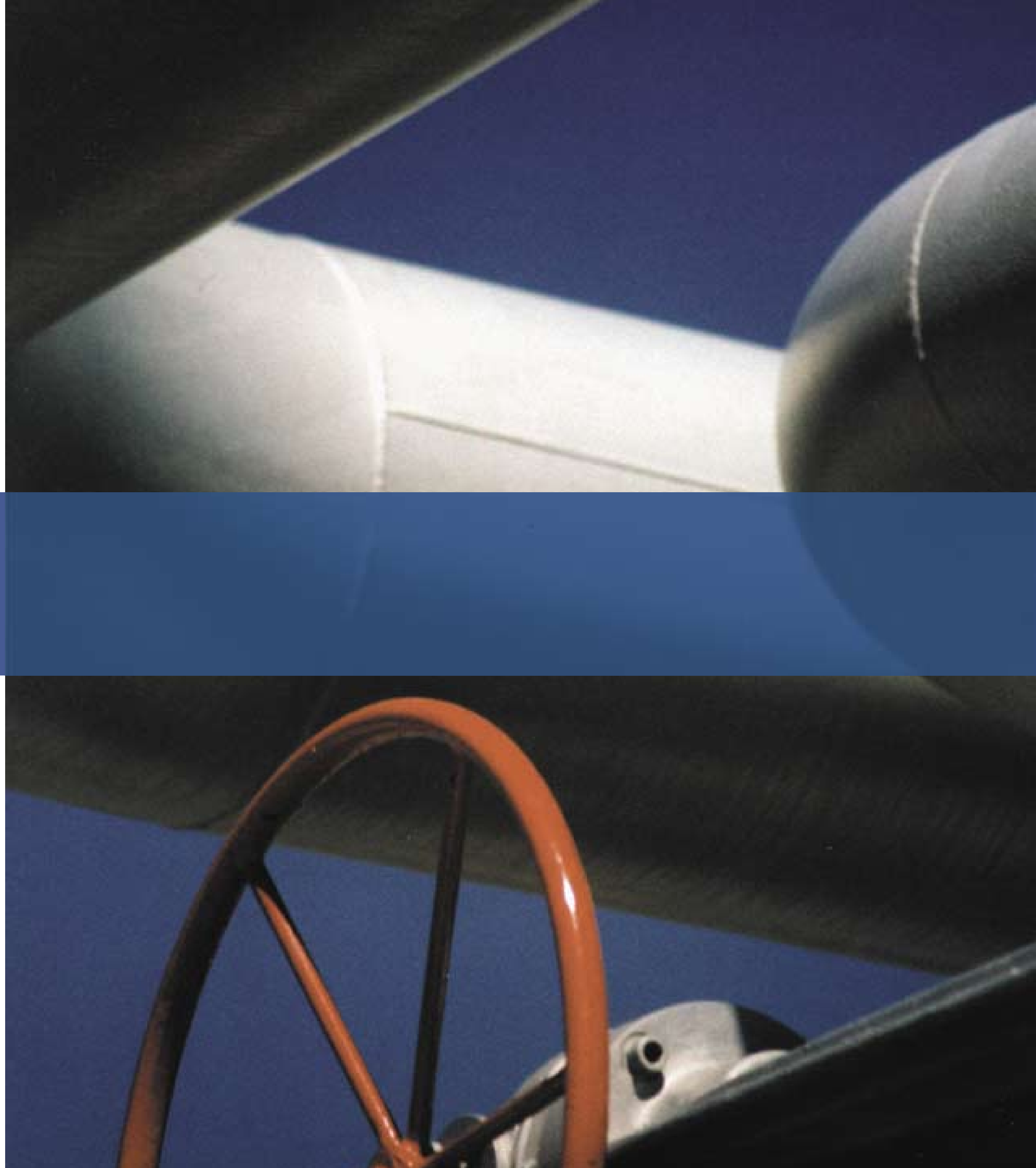
70 **INA - MOL Strategic Partnership**

74 **Financial Results**

90 **Financial Statements**

164 **Address Book**

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 (MOL). At the completion of the first privatisation stage in October 2003, MOL acquired 25% plus one share, while the remaining shares are owned by the Republic of Croatia.

INA was founded on 1 January 1964 when the operations of Naftaplin (oil and gas exploration and production) were merged with those of the refineries of Rijeka and Sisak. By the end of 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 (or “d.d.”).

INA Group

The INA Group comprises the parent company INA d.d. and a number of wholly and partially owned subsidiaries or associate companies. The headquarters of the Group are located in Zagreb, Avenija V. Holjevca 10, Croatia. As at 31 December 2004, the Group employed 16,147 personnel.
The Group has dominant positions in Croatia over oil and gas exploration and production, oil refining and the distribution of gas and petroleum products.

The Principal Activities of INA d.d. and its Subsidiaries 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
- importation 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 410 retail outlets currently in operation throughout Croatia
- trading in crude oil and petroleum products through a network of foreign subsidiaries and representative offices, principally in London, Ljubljana, Sarajevo and Moscow
- service activities incidental to onshore and offshore oil extraction through its drilling, workover and other oilfield services subsidiary Crosco d.o.o.
- 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.
- manufacturing 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 carried out by ITR d.o.o. Zagreb
- safety and security services carried out by SINACO d.o.o.

Mission, Vision and Core Values

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

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

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

Foreword by the President of the Management Board

Foreword by the President of the Management Board

The best financial results in recent years

In a few consecutive years, INA has achieved very good financial and operational results. This is the result of our long term strategy aimed at improving performance of each business segment and growth in the regional market. The year 2004 was exceptionally successful for INA. INA Group generated total sales of HRK 18 billion, an increase of 17% compared to the 2003 figure. Group-level net profit reached HRK 1,366 million (USD 226 million) 52% up compared to 2003, while INA d.d., the parent company, recorded a net profit of HRK 1,222 million (USD 203 million).
This financial year was marked by high crude oil prices on international market. Average dated Brent was 38.26 USD/bbl, an increase of 32.7 percent compared to 2003. However, prices of oil products on international market were also higher and were accompanied by increased refined products prices and improved refining margins. These events had a positive effect on INA's businesses.

All businesses improved operating profit

Similarly to previous years, the largest contribution to INA d.d.'s operating profit was made by INA's Upstream division. Higher prices comfortably offset slightly lower production of oil and condensate. Total oil production in 2004 was 1.155 million tonnes of oil and condensate.
Intensive exploration and development operations continue in Syria on the discovered fields. In May 2004 INA declared the first commercial discovery of gas and condensate on the Jihar field. At that time estimated recoverable reserves were about 15 million cm of oil equivalent. However, the production tests on the other four deposits discovered by the Jihar-2 well confirmed the new discovery of oil, condensate and gas which will contribute to significant increase of total hydrocarbon reserves of the Jihar field. Consequently, by the end of 2004, INA signed an Addendum to the Notice of Commercial Discovery to include oil, apart from gas and condensate.
In 2004 natural gas production was 1.851 billion which is by 3 million cm higher than in 2003. The majority of gas production comes from onshore fields, however the offshore Adriatic fields contribute significantly to the overall gas production. In 2004 INA's share of production from the Ivana field was 343 million cm. By the end of 2004 the offshore Marica field was put in operation. INA's share of production from this field is estimated to 100 million cm per year. Development of the smaller gas fields Ida, Ika and Annamaria is in progress. The gas produced on the Ivana field and the mentioned smaller gas fields Ida, Ika and Annamaria will be transported to the coast by sealine from the Ivana gas field to Pula. Unfortunately the construction of the pipeline from Pula to Karlovac, which is the responsibility of gas transmission company Plinacro, has been delayed. For the time being INA's share of gas production from the offshore fields is transported through Italy and Slovenia and on the Croatian - Slovenian border it enters the Croatian natural gas transportation system.

The demand for natural gas is growing in Croatia, particularly in household sector, and INA is making great efforts to ensure secure supply from its own resources and from imports. However, during 2004 we have faced disparity between high increase of import gas prices and the tariff for the supply of gas in the Croatian market which has remained unchanged. For the purpose of establishing a fair pricing system for natural gas, INA has submitted a proposal for changes in tariff system to the relevant institutions.

After years of losses, INA's Refining and Wholesale Division generated an operating profit of HRK 656 million. This is the result of favourable business environment, improved efficiency on all levels from crude oil procurement, supply chain management and pricing. With further modernization of the refineries in Rijeka and Sisak, which will enable them to produce derivatives according to Euro V specification to become effective in 2009, INA will become a strong refiner in the region.

INA's retail business is performing well, although they recorded lower operating profit than in 2003. This is the result of the application of a new business model according to which all business-to-business customers were transferred to the Wholesale Division. The Retail Division is now focused on the strengthening of the INA brand and expansion of retail network. In 2004 ten new petrol stations were put into operation, mainly along the highway routes. At the beginning of 2005 we commenced the project of changing the visual identity of INA's petrol stations in accordance with the new standards. The three new petrol stations currently under construction are designed according to new standards. All these activities are aimed at reinforcing INA's position in the Croatian retail market which is marked by growing competition.

Continuation of development projects

INA continues intensive investments in the exploration and development operations, mainly in Syria where the discovery of gas, condensate and oil has been confirmed on the Hayan block. Also, the investments in the modernization of the refineries in Rijeka and Sisak continue. The feasibility studies for the modernization programme have been completed and at the beginning of 2005 the Management and Supervisory Board of INA passed relevant decisions concerning this important project. The necessary funds have also been made available at competitive price during the year.

Continuous concern for the health, safety and environmental protection

In all our business operations we continue to pay great attention to environmental protection and the health and safety of our people. Modernization of the refineries will significantly contribute to lower emissions due to upgraded technology and removal of harmful substances in processing. During 2004 various activities were undertaken with the aim of curbing pollution into soil, water and air. In Maziva Rijeka lubricant plant, a project was launched for remediation of the soil which has been polluted by hydrocarbons in the coastal zone. This project also involves preventive and protection measures. In the Sisak refinery a new waste water separator was installed and emissions into air have been significantly decreased compared to 2003. In all organizational units we carry out continuous monitoring of emission of harmful substances into air, water and soil, generation of waste and its disposal, emergency situations and accidents, as well as environmental costs.

INA is a socially responsible company

As a socially responsible company INA is contributing to the community by promoting and sponsoring projects in the field of science, culture, healthcare and sports. In the local communities where INA's facilities are located, we provide support in construction of infrastructural facilities and economic development. As responsible employer, INA promotes education of its employees through various training programmes.

The success of INA and good operational results were achieved thanks to commitment of all our employees. We are proud of these achievements and they represent the foundations of our future development.

Partnership with MOL

The year 2004 was the first full year of our partnership with MOL, Hungarian Oil and Gas Company. We have worked together on a number of projects and expert teams exchange information and knowledge and work jointly on the projects in upstream, refining, wholesale, supply chain management and other activities. INA has benefited from joint arrangement with MOL in procurement of crude oil at more favourable prices.

Two other important interconnected projects on corporate level have been initiated in 2004. The performance improvement project analysed business processes, identified key value drivers and put forward proposals for improvements. That study also provides valuable inputs for the Integrated Enterprise Information System Project which was launched at the beginning of 2005. These projects are important for further improvement of INA's business efficiency and are also seen as prerequisites for future privatization steps announced by the Croatian government.

Achieved results confirm we are on the right track

The year 2004 was successful. Important projects like development of the Adriatic gas fields, further exploration and development operations in Syria and modernization of refineries have gathered momentum. We expect that in the years to come we will see returns on investments in these large projects, although a comprehensive refinery modernization will take longer time and considerable funding. However, we believe that together with our strategic partner we will complete this task successfully and that we will truly become important regional player.

President of the Management Board
Dr. Tomislav Dragičević

Directors and Management

General Assembly

For each General Assembly meeting the Government of the Republic of Croatia and the strategic partner MOL appoint its representatives.

Supervisory Board from 28 October 2003

Slavko Linić, Chairman
Zoltán Áldott, Deputy Chairman
Damir Kuštrak
Christian Panjol-Tuflija
Željko Pecek
György Mosonyi

Supervisory Board from 10 March 2004

Ivan Šuker, Chairman
Zoltán Áldott, Deputy Chairman
Božidar Kalmeta
Ante Babić
Branimir Glavaš
György Mosonyi

Before publication of this Annual Report two members of the Supervisory Board were replaced. Since 2 May 2005 instead of Branimir Glavaš and Ante Babić the new members were appointed: Damir Polančec and Tomislav Ivić.

Management Board from 29 October 2003

Tomislav Dragičević, President of the Board
László Geszti, Vice-president of the Board - Executive Director Finance Function
Željko Belošić, Member of the Board - Executive Director Exploration and Production Division
Boris Čavrak, Member of the Board - Executive Director Refining and Wholesale Division
Sanjin Kirigin, Member of the Board - Executive Director Retail Services Division
Béla Cseh, Member of the Board - Director Corporate Services Function
Milan Ujević, Member of the Board - Director Corporate Processes Function

Management Board from 26 July 2004

Tomislav Dragičević, President of the Board
László Geszti, Vice-president of the Board - Executive Director Finance Function
Mirko Zelić, Member of the Board - Executive Director Exploration and Production Division
Zorko Badanjak, Member of the Board - Executive Director Refining and Wholesale Division
Josip Petrović, Member of the Board - Executive Director Retail Services Division
Béla Cseh, Member of the Board - Director Corporate Services Function
Tomislav Thür, Member of the Board - Director Corporate Processes Function

On February 1, 2005 Mr. Béla Cseh was appointed to a new position at MOL, Budapest. Instead of him Mr. Zalán Bács was appointed director of Corporate Services and member of INA's Management Board.

Tomislav Dragičević,
President of the Management Board

Dr. Tomislav Dragičević (53), doctor of chemical sciences, was appointed general director of INA in March 2000. From June 2000, following implementation of the new Articles of Association, he became the President of the Management 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 and before that he worked in petrochemical plant as a head of processing unit. He graduated from the Faculty of Engineering, University of Zagreb. In 1984 he got his master's degree in chemical engineering, in 1993 doctor's degree in chemical engineering. Since 1995 he has been the fellow of the Croatian Academy of Science and Art, Section IV - Petrochemistry.

László Geszti,
Vice President of the Management Board and Chief Financial Officer

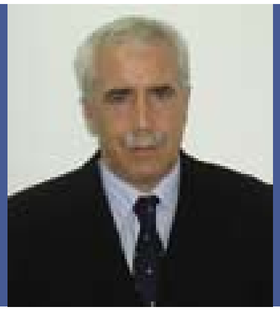
László Geszti (54) graduated from the University of Economic Sciences in Budapest. Before appointment to the position of Chief Financial Officer at INA, Mr. Geszti was Managing Director of the Refining and Marketing Division of MOL Plc. He joined MOL in 1999 and was appointed Managing Director of Marketing 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. Then, in 1985 he was promoted as the CEO and Chairman of the Board. In 1992 he joined Mineralimpex, the foreign trade organisation of the Hungarian oil industry, where he first worked as an adviser, later as the director of trade.

Mirko Zelić,
Member of the Board and executive director for Oil and Gas Exploration and Production

Dr. Mirko Zelić (69) joined the Management Board of INA from the position of full professor at the Mining and Petroleum Engineering Faculty, University of Zagreb. Dr. Zelić started his professional career at INA Naftaplin in 1964. He worked in various positions: engineer, head of Department for preparation of oil and gas for production, director of Production Sector, assistant to executive director of E&P Division of INA. He is the author of five books and over 40 scientific papers and a number of innovations in the area of oil and gas production. Dr. Zelić has been the fellow of the Croatian Academy of Science and Arts since 2997. Since 2000 he is the president of Executive Committee of Technical Sciences Department.

Zorko Badanjak,
Member of the Board and executive director of Refining and Wholesale

Zorko Badanjak (56) joned the Management Board of INA from the position of adviser to executive director of Retail Division. He started his professional career as engineer of medical ecology at the Health Institute, Rijeka. He joined INA in 1976 as production engineer at the Rijeka refinery (1976 -1988). He was manager of Technical Control in the period from 1988 to 1993 and after that head of the extraction unit of the Rijeka refinery. Mr. Badanjak was director of INA's Refining Sector from 1998 to 2000. From 2000 to 2002 he was chief engineer of development in Maziva Rijeka. Mr. Badanjak has master's degree in system engineering.



Josip Petrović,
Member of the Board and executive director of Retail Services

Josip Petrović (53) graduated from the Faculty of Economics, University of Zagreb and had his master's degree in Marketing in 1992. Before appointment to the position of member of the Board of INA Mr. Petrović was adviser to the President of the Board of Agrokor Group (from April 2000). His first employment was at Industrogradnja. After internship he was promoted to the position of head of market research and advertising department. After that he joined a footwear factory Šimecki where he was production manager. He was adviser to the general director of textile machinery and measuring devices factory for some time and then he took the position of general director of Unikonzum, a retail and wholesale chain. He joined Agrokor in 1995 and in the period from 1998 to 2000 he was the chairman of the Board of the Intercontinental Hotel Zagreb.

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

Mr. Tomislav Thür (38) graduated from the Faculty of Law, University of Zagreb in 1991 and in 1998 he received his master's degree at the Harvard Law School. Before being appointed as Member of the Management Board of INA, d.d., Mr. Thür was working as a General Secretary in the Atlantic Group. He started his professional career in lawyer's office "Odić-Rubčić".
From May 1992 until August 2001, he was working for the Croatian Ministry of Foreign Affairs in the Croatian Embassy in Bern and Washington and also within the Croatian Mission with the UN in Geneva. He was leading the Office of National Coordinator for Security Pact. He obtained his specialist management skills in London Business School and in the INSEAD. He speaks English, German, Spanish, Italian, French and Hebrew.

Béla Cseh,
Member of the Board and director of Corporate Services

Before appointment to the position of director of Corporate Services Function and member of the Board of INA, Mr. Cseh was HSE Director of the MOL Group (2001-2002). Before this position he was director of Corporate Services in the period 2002 - 2003. During 2001 he was deputy general manager of Marketing of Slovnaft. Before that Mr. Cseh held different managerial positions in MOL (Chemical Division Director, Downstream deputy general manager and other.)

Business Report

Development of Human Resources

At the year-end INA Group employed 16,147 personnel of which INA d.d., the parent company, employed 10,444 people and the subsidiaries 5,703.
During 2004 INA continued its initiatives in promoting efficient and continuous education of its employees. Knowledge is increasingly becoming a key factor of success and competitive advantage of a company. In addition, new technologies and processes require different skills and expertise. Therefore, INA's Training and Education Department organized different programmes and activities.
A number of in-house training courses, seminars and lectures were organized with tutors from abroad and Croatia, which were aimed at providing our employees with up-to-date skills for different functions. During the year about 10,629 employees were involved in one or several training programmes. In majority of cases these programmes were tailored according to specific requirements of the target trainee groups.

Great emphasis has been put on providing adequate training in IT programmes. The contract has been signed with European Computer Driving's Licence (ECDL) centre for 3,000 trainees. Such education becomes increasingly important as INA is introducing Integrated Enterprise Management System. A number of managers attended MBA courses or post-graduate studies at the universities in Croatia or abroad. An agreement was signed with the Faculty of Economics for providing a specialized MBA training that will include about 100 younger managers.

Within the scope of our concern for health, safety and the environment, permanent training courses are organized in order to upgrade knowledge and skills of our employees in these areas. A special programme "train the trainer" was organized in the refineries in Rijeka and Sisak under the title "Best Practice". Processing experts provide training for processing personnel. The occupational safety training encompassed 744 employees. In addition, specialized courses were organized for attendants at petrol stations, for safe operations by truck-tanker drivers and fire-fighting courses.

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 criterion 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 are certified in accordance with ISO 14001 standard and OHSAS 18001 specification:

- Exploration and Production of oil and gas
- Rijeka Refinery
- Sisak Refinery
- Maziva Rijeka - lubricants plant

INA's Retail Services introduced environmental management system and obtained a respective certificate in 2004. Currently they are working on implementation of the health and safety management system.

In line with its environmental protection policy, during 2004 INA implemented numerous activities aimed at improving environmental protection. In Maziva Rijeka lubricants plant a project was launched for remediation of soil polluted by hydrocarbons in the coastal zone, which includes also preventive and protection measures. In the Sisak refinery the new waste water separator was put into operation. As a result of strict implementation of measures according to environmental management system in the processing units, the quantity of water taken from water supply system decreased by 11 percent. In addition to positive impacts on the environment, it has also reduced costs. The short term measures introduced in the Sisak refinery with the aim to decrease H_2S emissions and imissions have rendered results.

In the Rijeka refinery and the nearby port Bakar the new system was installed for the dispatch of oily and ballast water through pipeline to the central waste water treatment system within the Rijeka refinery. New treatment units are added to the system and it is now able to perform complete treatment of waste and ballast water with positive impact on the preservation of eco system of the Bakar bay. Emissions monitoring stations around the lubricants plant Maziva Rijeka are included in the emissions monitoring and reporting system of Public Health Institute of the Primorsko-goranska county. The data obtained from the monitoring stations are processed and published on the Institute web site.

A special project commenced in the E&P division several years ago. Its purpose was to test the eco system of the forest area called Žutica, which is also the largest oil field. Beavers were reinhabitated in the water flows around Žutica, after their complete extinction in these regions. These animals can live and survive only in an extremely clean environment. In the Žutica habitat, over a period of 5 years from 16 beavers their number increased to over 300, proving that even in extremely complex conditions of oil production, collection and transportation for almost four decades, INA has successfully preserved and protected the local environment and watercourses. The project is in monitoring stage.

In oil products transportation and on retail outlets measures are taken to decrease evaporation and emissions into air. In construction of new retail sites and reconstruction of existing ones, the latest technology solutions are applied that ensure the level of HSE standards according to Croatian and European regulations.

The undertaken measures have rendered results and total discharges into water from INA's facilities decreased compared to 2003. The number of accidents with impacts on the environment was also lower. INA pays a lot of attention to communication with the public and all stakeholders, from our customers to local communities and government institutions. Also, we are constantly working on improving the awareness of employees of the necessity to preserve the environment.

Quality Management

Quality management has a long tradition in INA, d.d. Majority of business processes have obtained the necessary certificates for quality management system in accordance with ISO 9001.
Changes in business environment, as well as those within the Company, call for respective changes in management system. Therefore, in the area of quality management, the year 2004 was marked by identification and description of processes as basis for the business management system by means of setting their goals and establishment of performance measurement system for every process.
During that same year, the Management Board of INA, d.d. adopted the Resolution on certification of INA on corporate level, based on integrated quality management system.
All organisational units that were certified continued to maintain them according to ISO 9001:2000.

The following INA's organisational units are certified:
ISO 9001:2000 certified:

- Exploration and Production Division
- Refining and Wholesale Division,
  the Refining Sector including the following:
  - The Sisak Oil Refinery
  - The Rijeka Oil Refinery
  - The Rijeka Lube Refinery
- Retail Services Division, the Sales and Retail Business Development Sector
- Corporate Processes Function

The ultimate goal of the quality management system's application is to enhance the quality of INA's products and services, at the same time improving the quality of Company's business operations, as well as to achieve the high level of all clients' satisfaction, especially our buyers. In 2004 as part of denoting the Quality Week in the Republic of Croatia, the Croatian Society for Quality granted to INA, d.d. the Charter for the Promotion and Application of the High Quality Standards in the Croatian Economy.

Social Responsibility

INA provides support to a number of activities in the field of culture, arts, sport, health-care and humanitarian aid, environmental protection, preservation of cultural heritage and science. Proceeds are granted in the form of sponsorships and donations to various institutions (theatres, museums, festivals, etc.), hospitals, non-government organizations, sports clubs and others as a support in realisation of various projects which could hardly be developed without the aid of donors. INA actively supported a number of cultural events, music festivals, restoration of monuments and cultural heritage, 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. Until today the prize was awarded to remarkable persons who truly contributed to the promotion of Croatian arts and cultural heritage in the world.

Also, INA has provided grants for reconstruction of the 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 where INA provides support to clubs, drivers and important rallies.

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 war, war veterans and individuals who badly needed assistance. In 2004 INA’s contribution for sponsorships and donations was HRK 38 million. By the end of 2004 we publicly announced a competition for grants so that various organizations could candidate projects for sponsorships and donations. INA’s Corporate Communications Sector received over 1,500 applications. The same procedure will be applied for grants in 2006. Thus we will endeavour to provide support to original and beneficial projects that will contribute to the welfare of Croatian citizens.

Business Activities

Exploration and Production

Exploration Operations

In 2004 exploration efforts were focussed on INA's interests abroad. The most important project was completion of the second exploration phase in Syria which involved drilling and testing of confirmation wells on the discovered gas-condensate fields Jihar, Al Mahr and Palmyra. In addition to previously discovered gas-condensate reservoirs, several additional deposits were discovered, some of them being oil prospects. Apart from Syria, oil was discovered on the three smaller oil fields within North Bahariya block in Egypt. Similarly to previous years, exploration operations in Croatia were concentrated on the offshore Adriatic blocks Aiza Laura, Izabela and Iris/Iva.

Exploration Activities in Croatia

The North Adriatic

The Aiza Laura block (INAGIP operator - 50% interest)
In the Aiza Laura block the exploration operations are carried out by INAGIP, the joint company of ENI, Italy and INA. In 2004 INAGIP drilled the exploration well Karla-1 on the Aiza Laura Block, however it was unsuccessful.

The Izabela and Iris/Iva blocks (EDINA operator - 50% interest)
The exploration activities continue on in the Izabela block operated by EDINA, the joint company of Edison Gas, Italy and INA. EDINA completed the Izabela-1 exploration well which struck commercial gas reserves. The surveys continued on the Izabela block comprising the surface of 300 square kilometres. 3D seismic was carried out by the Dutch company Fugro. It was completed in January 2005 and interpretation of seismic data is in progress. Two other exploration wells are planned to be drilled by EDINA in 2005. All exploration costs are borne by Edison Gas in line with the Production Sharing Agreement.

Exploration Activities Abroad

Syria

The Hayan Block (INA operator - 100% interest)
INA carried out an ambitious exploratioan and appraisal program in 2004. In the focus of our interest were the Jihar and the Palmyra fields on which hydrocarbon reserves have been confirmed. The drilling of four exploration wells that commenced in 2003 continued in 2004 targeting formations in the Jihar and Al Mahr fields. Two new wells were started in the Palmyra field.
The Al Mahr-2 well reached the total depth of 4130 m in Markada sand formations. Several gas deposits were encountered during drilling. Three exploration-appraisal wells were drilled on the Jihar prospect. The well Jihar-4 reached the total depth of 4202 m. During drilling several gas deposits were discovered and the workover programme will be implemented in order to test reservoir properties.
The discovery of oil on the Jihar-2 well pointed to the need to re-examine the Jihar-1 well. The additional tests on the Jihar-1 confirmed excellent daily output of 704,000 cm of gas and 350 cm of condensate, but unfortunately no oil deposit was confirmed.
On 20 May 2004 INA declared the first commercial discovery of gas and condensate on the Jihar field following good exploratory results on the Jihar prospect. Although exploratory drilling indicated existence of six hydrocarbon deposits, INA has declared commercial discovery only on two deposits because at the time we did not have sufficiently reliable data for the remaining four reservoirs. At that time estimated recoverable reserves were about 15 million cm of oil equivalent. However, the production tests on the other four deposits discovered by Jihar-2 well confirmed the new discovery of oil, condensate and gas which will contribute to significant increase of total hydrocarbon reserves of the Jihar field.
The Jihar-5 well reached the total depth of 3576 m. During drilling several potential deposits were encountered, however despite showings of gas and traces of oil no commercial reserves have been confirmed. The well has been temporarily abandoned with a possibility that likely prospects are re-examined at later stage.
On the Palmyra field appraisal wells have been drilled. The Palmyra-2 well reached the depth of 1833 m, however production tests did not confirm commercial gas reserves. The other appraisal well Palmyra-3 with total depth of 1991 m discovered new and confirmed previously discovered gas deposits. Production tests on this well

yielded daily production of about 240,000 cm of gas.
The Al Bahra prospect is also on the Hayan block. After 2D surveys, one exploration well was drilled in 2004. The Al Bahra-1 well reached the total depth of 4147 m. Despite numerous showings of gas encountered during drilling, no commercial hydrocarbon reserves were discovered.
In line with the agreement signed with Syrian Petroleum Company (SPC), INA will return to SPC the surface of 1166 square kilometres, while further exploration and development operations will be continued by INA on the remaining acreage of the Hayan block.

Block 10 - Aphemia (INA operator - 100% interest)
In January 2004 INA signed with the Syrian partners the Production Sharing Agreement for the Block 10, now renamed the Aphemia Block, which is situated to the north-west to the Hayan block. In June 2004 the Syrian parliament ratified the agreement and INA's exploration rights became effective.
The two exploration wells have been drilled by previous concessionaires on the Aphemia block with serious indications of existing oil deposits. Due to some technical problems well testing was unsuccessful. INA intends to run the tests once again in the second half of 2005.

Egypt

NED Block (North Eastern Desert - INA operator - 50% interest)
In April 2004 INA completed the second exploration stage on the NED block which included drilling of three wells and performing additional seismic surveys. After drilling the El Wasta-1 well in 2003 which did not confirm oil deposits, the second well Mit Ghamr NE-1 was drilled. It was completed in February 2004. The well encountered oil traces but did not struck commercial reserves. In agreement with the partners this concession was abandoned.

North Bahariya Block (Sipetrol operator, INA's share 20%)
The last exploration stage on the North Bahariya block was completed in April 2004 in line with the contract provisions. This concession rendered excellent results. After the discovery of the Ganna field in 2003, the three other exploration wells resulted in discovery of the Ferdaus, Rawda and Abrar oil fields. Commercial discovery was declared and the concessionaires obtained development and production rights. The wells Ganna-1 and Ferdaus-1 started with initial daily production of about 230 cm of oil.

East Yidma Block (INA operator, INA's share 50%, RWE-DEA 50%)
The Concession Agreement was signed in March 2004, however seismic surveys could not start immediately because the area had to be cleared of mines remained after World War II. The 2000 acres of the block were successfully de-mined and 2D seismic was run on 466 square kilometres and the data have been interpreted. The drilling of the first exploration well is expected in the second half of 2005. The block offers a series of prospects and is very similar to the already discovered fields in this part of West Sahara.

Ras El Ush Block (operator ENI, ENI's share 75%, INA's share 25%)
The Ras El Ush block is situated in the Suez bay. The first exploration well Ghanim-1 was drilled by the end of 2004 (total depth 1590 m). The well was unsuccessful, however, the partners still consider that the prospects of this block are promising and the intention is to continue exploration operations.

Exploration Success Indicators

In 2004 INA invested in exploration operations USD 94.47 million of which USD 91.97 million was earmarked to interests abroad. The investments in development operations were USD 113.40 million and the largest portion of the development proceeds (USD 103.27 million) was channelled into the development of the offshore Adriatic gas fields in Croatia. The exploration efforts resulted in the discovery of new gas, condensate and oil reserves in Syria and the discovery of additional oil reserves in Egypt. In addition, EDINA discovered the new gas reserves in the offshore Adriatic on the Izabela block.

Table I

Investments in exploration and developement in 2004

Description	Total in 2004		In Croatia		Abroad	
	HRK mil.	USD mil.	HRK mil.	USD mil.	HRK mil.	USD mil.
Exploration operations	570.54	94.47	15.06	2.49	555.48	91.97
Development operations	684.91	113.40	623.70	103.27	61.21	10.13
Total investments	1,255.45	207.87	638.76	105.76	616.69	102.10

Table II

Investments in exploration and development USD/boe

Investments USD/boe	2003	2004	Index (2004/2003)
Exploration	4.85	4.62	95
Development	1.45	5.54	382
Total	6.30	10.16	161

Development Operations

Croatia

During 2004 development activities on oil and gas fields in the Pannonian basin were aimed at alleviating natural decline in production volumes, increasing hydrocarbon output of the existing wells or speeding up the recovery rate. Five new development wells were drilled - 2 gas wells (Kal-20R, Mol-20R), 2 oil wells (Jam-64R, Kz-39) and 1 production-injection well (Ok-59H9). These wells will contribute to additional production of about 21,000 cm of oil equivalent.
The work on the Enhanced Oil Recovery (EOR) projects has continued. The Trade and Development Agency (TDA) of the US Government granted to INA the funds for financing the three EOR studies. The studies for three candidate oil fields (Ivanić, Žutica and Beničanci) are being prepared by Ryder Scott company from the U.S.A. and INA's experts. Due to complexity of this demanding project, the completion of the studies is expected by mid 2005. According to the forecasts the application of EOR methods which involve CO_2 injection should enable additional recovery of 10 to 12 million cm of oil.
The activities on the Međimurje project were focused on preparation of the feasibility study for optimal model for putting into production the three gas fields in the Međimurje region in the northern part of Croatia: Vučkovec, Vukanovec, Zebanec.
The feasibility study for the new underground gas storage on the Okoli field (also financed by the TDA) is in progress.

Adriatic
The development of the North Adriatic project, by far INA's most important development project in progress, comprised drilling of the three directional wells on the Marica field which are completed, including the equipping of production platform. Currently the field is in trial operation. In addition, one three directional wells were drilled on the Ida gas field and one directional and two horizontal wells were drilled on the Ika gas field.

The Annamaria field was the subject of unitisation as a joint development with INA's Italian partner ENI. As the field extends over the median line the partners have to define boundaries and sharing of production. During 2004 INA and ENI completed the reinterpretation of 3D seismic and geological model, and the dynamic simulation of the field has commenced.

Abroad

Angola
Scope of works on the 3/80 block has been diminished due to expiry of production rights. The negotiation on the renewal of the rights is in progress. Instead of Total, the operatorship on this block will be overtaken by the national company Sonangol.
INA also has production rights on the other two blocks (3/85 and 3/91) together with other partners in consortium. INA's share is 5% in each of the above blocks.

Egypt
Concessions West abu El Gharadig and Ras Qattara (INA's share 25%, operator IEOC): three additional development wells have been drilled with the purpose to alleviate the production that recorded a slight decline. Fracturing operations have been carried out on some of the production wells.
North Bahariya Block. This is a new concession on which four oil fields have been discovered and put on stream. These are: Ferdaus, Ganna, Abrar and Rawda. There is one production well on each field.

Syria
After announcement of commercial discovery in May 2004 on the gas-condensate field Jihar in Syria, the work on the development programme has continued. As further exploration activities confirmed existence of oil deposits, an Addendum to the Notice of Commercial Discovery was submitted to include oil, apart from gas and condensate. This is the reason why the development programme has been delayed and was not completed in 2004. In addition to the Jihar field, the development activities will be carried out on the Palmyra and Al Mahr fields also within the Hayan block.

Oil and gas reserves in Croatia and abroad as of 31 December 2004

	Unit	Proved*	Proved + Probable
Oil	10^3m^3	8,492	15,365
Condesate	10^3m^3	3,302	4,421
Total oil+cond.	10^3m^3	11,794	19,786
Gas	10^6m^3	28,308	38,304
Total OE	10^3m^3	40,102	58,090
Reserves in Croatia OE	10^3m^3	39,301	52,727

	Unit	Proved*	Proved + Probable
Oil	10^3bbl	53,409	96,635
Condesate	10^3bbl	20,767	27,805
Total oil+cond.	10^3bbl	74,176	124,440
Gas	10^6bbl	178,038	240,906
Total OE	10^3bbl	252,214	365,346
Reserves in Croatia BOE	10^3bbl	247,176	331,616

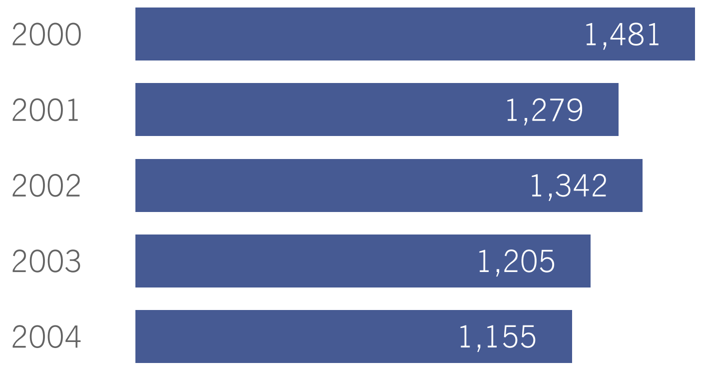
*total developed + undeveloped
Audited by APA Petroleum Engineering Inc., a firm of independent petroleum consultants

Oil and gas production

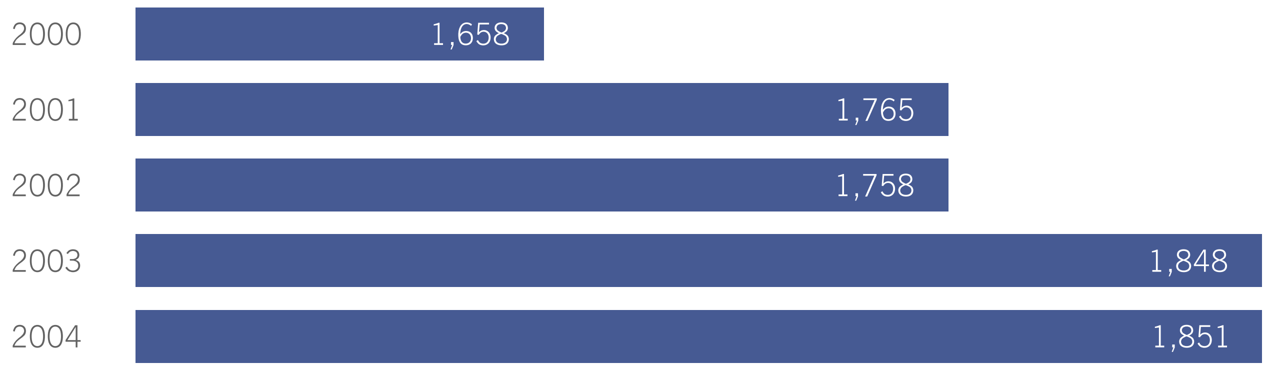
In 2004 INA produced 1.155 million tonnes of oil and condensate, comprising:

- in Croatia 679,026 tonnes of oil and 325,801 tonnes of condensate
- in Angola 71,861 tonnes of oil
- in Egypt 78,179 tonnes of oil

In Croatia oil was produced from 35 fields and 797 production wells which included low production wells in periodical operation. Only 10% of wells have naturally flowing production, whilst the remainder employ artificial lift: 41% gas lift and 49% by pumping. In addition to oil, 2.4 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.
The total natural gas production was 1.851 billion cm, to which the Ivana offshore field contributed 343 million cm, representing INA's share under the terms of the production sharing agreement with ENI.



Crude oil and condensate production (kilotonnes)



Natural gas production (million m^3)

During the year INA put on stream a small gas field Janja Lipa, gas well Janja Lipa-7 (monthly production 344,000 cm of gas), the part of Čepelovac-Hampovica field where oil was discovered and additional new development well on the Jamarice field and two wells on the Molve field.
In order to achieve forecast production levels, various workover operations were carried out on the production wells. The operations included: 33 capital workover operations, hydraulic fracturing and gravel pack, 367 regular workover operations and 7 well equipment overhauls. Total investments in workover operations amounted to HRK 140 million. Their implementation resulted in increased production of oil by 4,305 tonnes, condensate by 1,400 tonnes and natural gas by 16.5 million cm.
Particular attention was paid to annual overhaul of the gas treatment plants Molve and the ethane plant which resulted also in technological upgrading:

- increased yield of C_2+ fraction from 300 t/d to 400 t/d with increased ethane content;
- increased capacity of compressor station Kalinovac from 130,000 to 190,000 cm/d (gas field Kalinovac) and reconstruction of gas pipeline which enabled commencement of compressor production from the low well-head pressure gas wells on the Kalinovac field.

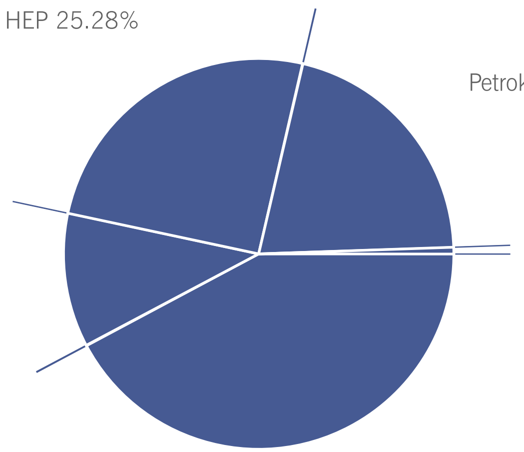
Planned reconstruction works on gathering and dispatch systems as well as in processing plants have been successfully completed.
The ethane plant produced 112,609 tonnes of LPG and virgin naphtha and 65,469 tonnes of ethane.
In 2004 INA produced 0.3 million cm of geothermal water and 2.2 million cm of fresh water.
Environmental projects financed by EBRD loan funding, including reconstruction of the waste fluid outlet from the LO-CAT unit in Gas Treatment Plant 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 successfully completed.
Within the scope of constant care for safety and environmental protection, specialized teams carried out survey of trunk pipeline from the dispatch station Stružec to the Sisak refinery. After that the critical sections of the pipeline were replaced and the new leakage detection system was put in place on all important points of oil and condensate dispatch systems.

Natural gas supply and sales

INA's natural 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 about 60% of total Croatian gas demand, with the remainder imported from Russia. In 2004 INA imported 1.054 billion cm of gas from Russia. Imported volumes were slightly lower than planned due to reduced delivery caused by reconstruction of international transmission pipelines during summer months.
During 2004 INA signed several addenda to the existing agreements for supply and transportation of natural gas from the Russian Federation. We have agreed higher import volumes within the framework of available transmission capacity. Also, the negotiations are successfully completed on a new long term agreement for the supply of natural gas from the Russian Federation until 2010.



Market share of customer segments in 2004

Commercial Sector sold 1.658 billion cm of gas from domestic supply. The portion of natural gas from the Adriatic offshore fields increased. The Marica field was put into production in November 2004. As this field is in the central part of the Adriatic Sea, it is only linked to the Italian gas transportation system. INA signed the Agreement with ENI, Italy for the swap of natural gas. INA's portion of natural gas from the Marica field (according to Production Sharing Agreement) is dispatched to the Italian gas network near Falconara, and ENI supplies the same volume of gas through the SOL pipeline in Austria, and then it is transported through Slovenia to the Croatian network. The swap arrangement started on 1 January 2005.
Negotiations have been initiated concerning opening of new import route through Hungary with INA's strategic partner MOL. It is important to ensure additional volumes of gas for the Croatian market in order to meet growing demand expected in the future.

Wholesale of natural gas

In 2004 INA renegotiated the price of natural gas with its eligible customers (HEP, electricity company, Pliva, pharmaceuticals and Petrokemija, Kutina, fertilizer plant) with tendency to increase sales price in order to mitigate high increase of imported natural gas price which followed movements of crude oil and refined product prices in international market.
With the aim to remove the disparity between high prices of imported gas and sales prices in the Croatian market, INA sent a proposal to the Ministry of Economy for amendment of tariff system methodology for gas supply. The intention is to design the system according to which wholesale gas price would reflect energy value of alternative fuels in the Mediterranean market on the basis of crude oil prices. In that case we would have prices that reflect movements in the international energy market.
During 2004 Commercial Sector initiated talks for new potential supply of natural gas for HEP's new facilities and with potential customers in the Primorsko-Goranska county and Istarska county along the new trunk pipeline under construction. It is INA's intention to remain a key supplier of natural gas in Croatia in the future.

Refining and Wholesale

In 2004 INA's refining and wholesale business recorded exceptionally good results. Refining margins improved while the volumes of refined products remained at the level of 2003. The year was marked by high crude oil prices (in average 33% up compared to 2003), but average prices of oil products were also by 26% higher than in 2003. High product spreads, improved efficiency in crude oil procurement and improved supply chain management contributed to generation of operating profit of Refining and Wholesale Division of HRK 656 million, while in 2003 it generated operating loss of HRK 462 million.

In 2004 INA's refineries processed 5.1 million tonnes of crude oil and feedstock. Including lubricant plant Maziva Rijeka, total processed volumes were 5.5 million tonnes.
Domestic crude oil accounted for 18% of total processed oil. Among other types of crude supplied from export, REB accounted for the largest portion and it was mainly supplied through the Friendship pipeline (part of Druzba-Adria pipeline) in joint arrangement with our strategic partner MOL. As a result of such arrangement during 2004 INA achieved considerable savings in procurement of crude oil. Atmospheric residue for Maziva Rijeka was partly supplied from export and partly from the Rijeka refinery. In 2004 the Rijeka refinery processed 3,162 kilotonnes of oil and the Sisak refinery processed 1,918 kilotonnes of oil.

Oil refining (kilotonnes)

Refining	2000	2001	2002	2003	2004
Domestic oil	1,097	923	1,059	973	929
Imported oil	4,066	3,909	3,771	3,895	4,165
Atmospheric residue	158	152	418	597	412
Total refining	5,321	4,984	5,248	5,465	5,506

INA's refined products output in 2004

Derivatives	kilotonnes per year
LPG	298
Virgin naphtha	212
Motor gasolines	1,226
Gas oils	1,964
Fuel oil	753
Coke	42
Bitumen	217
Motor oils	12
Base oils	33
Paraffin	9
Other	19
Semi-finished products	88
Total products	4,873
Internal consumption and losses	633
Total	5,506

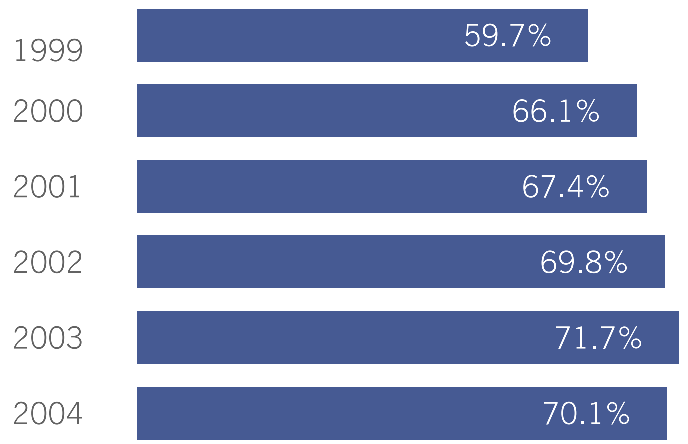
During 2004 the share of white products has maintained high percentage in total output. The share of gas oil recorded further increase in line with the growing demand in the domestic and export markets.

This is the result of upgrading and optimisation programmes implemented in both refineries. During 2004 INA invested USD 68 million in reconstruction of process units and upgrading of technology. In March 2004 the Sisak refinery put into operation gas oil hydro-treatment unit for which it used previously mothballed gasoline catalytic reforming and hydro-treatment units. The reconstruction was successfully completed and the unit included in refinery's processing model. It enabled production of higher volumes of diesel fuel in compliance with effective Euro quality specification.

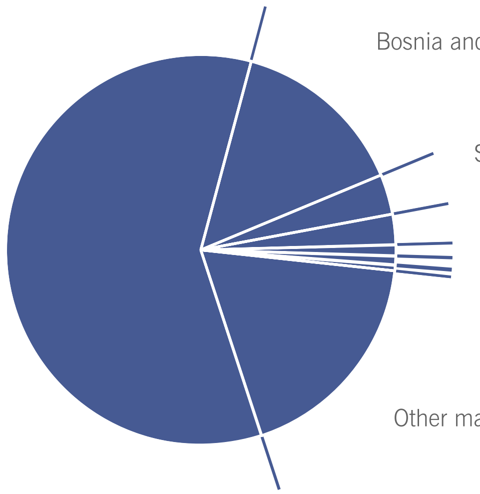
The reconstruction of the isomerisation unit in the Rijeka refinery is expected to be completed in the second half of 2005. It will enable production of higher volume of motor gasoline in compliance with effective Euro quality specification. In addition, a number of smaller reconstruction and upgrading projects were carried out in both refineries.

These activities have marked the beginning of the new investment cycle and a comprehensive modernisation of INA's refineries to enable them to produce derivatives in compliance with quality standards to become effective after 2008. During 2004 a part of engineering work was completed and in the first quarter of 2005 INA's Management Board and Supervisory Board passed the relevant decisions. The modernization will also include residue upgrading.

The project will enable the expanding of refining capacity, reaching EURO V quality standards of products, and environmentally friendly technology. Estimated value of the project is roughly USD 800-900 million. The project will be executed in phases. The first phase began in 2005 with the tender for sulphur recovery unit for the Sisak refinery.
Within the scope of organizational changes that took place by the end of 2003 INA introduced a supply chain management as a separate organizational unit. During 2004 the activities of the Supply Chain Management sector were focused on maximisation of profit through continuous monthly planning, rigorous weekly operational scheduling and continuous performance monitoring. These activities contributed to improved cost control along the chain from the supply of crude oil, production of derivatives, logistics and sales and more intensive and improved relations with our customers. Thus we have enhanced cost and operational efficiency of refining and wholesale operations and contributed to overall performance of INA.
In planning of supply chain management activities we had the full support and transfer of knowledge by our strategic partner MOL.



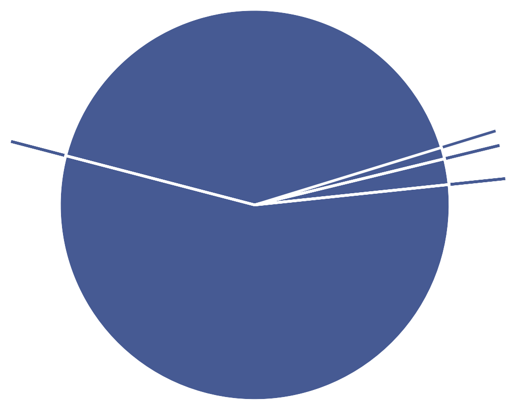
Share of white products in refining



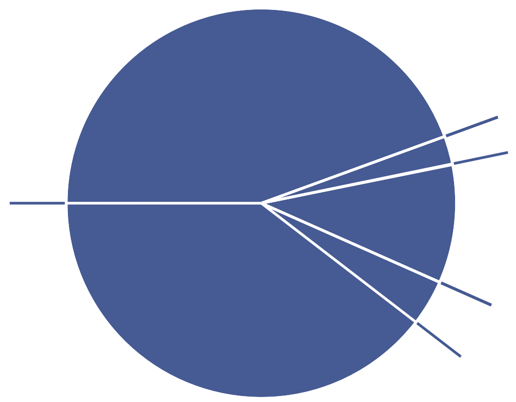
Retail - Domestic

INA has maintained high market share in the Croatian market despite growing competition. During 2004 INA sold to the domestic market 2,891 kilotonnes of products which is 8% less than in 2003. Motor gasoline and fuel oil sales declined while the sales of gas oils and bitumen increased. Average product prices were about 34 percent higher than in 2003 with positive effect on the results.
At the beginning of 2004 INA adopted a new business model according to which all business-to-business customers were transferred to wholesale. According to previous model some of these customers used to be supplied by retail. Setting of clear boundaries between the wholesale and retail activities enables more focused management. Wholesale sector defined sales conditions for the categories of its customers and constantly works toward improvement of customer satisfaction.
While wholesale of products in the Croatian market recorded slight decline in volume terms, export of products rose by 18.5 percent compared to 2003. In total 1,988,808 tonnes of products were exported mainly in the regional markets and to the spot market. Bosnia and Herzegovina has remained INA's key export market benefiting from the favourable position of the Sisak refinery and the Ploče port terminal. However, in 2004 exports to the other markets, predominantly spot market, were significantly higher due to favourable spread of products prices. The favourable position of the Rijeka refinery on the Adriatic coast enabled effective scheduling of export cargos, mainly gasoline, gas oil and fuel oil.
INA's Retail Services manage the network of 410 petrol stations across Croatia and part of the network in neighbouring countries: 6 petrol stations in Slovenia and 40 petrol stations in Bosnia and Herzegovina.
INA owns additional number of retail outlets in Bosnia and Herzegovina which are not accessible and in Serbia which are the subject of claim for restitution.
It is estimated that in 2004 total retail sales of oil products in Croatia were 1,800,000 tonnes. With total sale of 1,154,543 tonnes of oil products through retail network INA accounted for 63.8% of this total retail market. As for the total number of petrol stations in Croatia, INA's share is 60%.
INA's retail operations are organised in 5 business centres spread geographically so as to cover the entire territory of Croatia (Zagreb, Varaždin, Osijek, Rijeka and Split), subdivided into 16 business units.
Sale structure is the following: 41.2% motor gasolines (475,641 tonnes, 56.3% gas oils (649,043 tonnes), 0.4% oils, lubricants and paraffin (5,179 tonnes) and LPG 2.1% (24,664 tonnes).
The year 2004 was marked by significant investments in retail network. Ten new petrol stations were constructed and put into operation along the highway routes across Croatia: Zagreb-Varaždin,

Zagreb-Split and Zagreb-Bregana (near the border with Slovenia). In addition, 2 sites were fully reconstructed and several petrol stations were refurbished. In line with our programme to improve the efficiency and profitability of retail network, some poorly performing sites are candidates for closing but those in attractive locations will be further upgraded. At the beginning of 2005 INA initiated the project for redesign and standardisation of petrol stations.
All retail sites have been linked to the corporate IT system in order to ensure on-line transfer of data and to improve business processes. The level measuring systems installed in storage tanks provide accurate information on fuels level in the tanks and enable improved stock control and supply management.
The INA card has a growing number of users and transactions every year. INA card's share of total card transactions was 51.99%. In 2004 total card transactions accounted for 42.88% of total payments in retail network.
During 2004 INA established a new on-line system for INA card authorisation. EFTPOS (Electronic Funds Transfer Point of Sale) systems were installed on the petrol stations operated by INA's subsidiary Interina Mostar d.o.o. INA card transactions are also accepted on the petrol stations operated by INA's subsidiaries in Slovenia (Interina, Ljubljana) and Bosnia and Herzegovina (Holdina, Sarajevo). At the beginning of 2005 INA and MOL launched a joint project for the acceptance of MOL's cards on INA's petrol stations and vice versa.
The project initiated by INA's Card Centre which included installation of terminals on petrol stations that will enable acceptance of all payment cards used in Croatia was successfully completed. Also, the other project was initiated for the on-line processing of UTA and DKV cards by INA's card centre. It will improve services provided to the holders of these cards, primarily truck transportation companies.
Our strategic goal is to strengthen the INA brand through further improvement of retail network, focusing on customers and their satisfaction and by constantly improving the quality of our services. The redesign of INA's petrol stations and new standards for sale building will contribute to achievement of this goal. INA's service stations will include additional number of car-washing facilities, coffee shops and modern shops offering to customers various consumer goods.
Special attention is dedicated to environmental protection and preservation of natural heritage. In this respect we undertake various environmental protection measures and our employees participate in specially designed health, safety and environmental protection training programmes.



Sales structure of oil derivates in the Croatian market (volumes)



Sales structure of oil derivates in the Croatian market (revenue)

Organizational Chart of INA Group

Diagram of INA Group

INA Group

INA d. d.

- Exploration and Production Division - Naftaplin
- Refining and Wholesale
- Retail Services

Major Subsidiaries in Croatia

- CROSCO d.o.o
- STSI d.o.o
- PROPLIN d.o.o
- Maziva - Zagreb d.o.o
- HOSTIN d.o.o
- ITR d.o.o
- SINACO d.o.o

Major Subsidiaries Abroad

- INTERINA London Ltd.
- INTERINA Guernsey Ltd.
- INTERINA Mostar Ltd.
- INTERINA Sarajevo Ltd.
- INTERINA Ljubljana Ltd.

Organizational Structure of INA d.d.

General Assembly – Supervisory Board – Management Board – President of Management Board – Members of Management Board

Management Board

- Internal Audit and Control
- Company Secretary's Office

President of Management Board

- Strategy and Corporate Business Development
- HR and Central Affairs
- Legal Affairs
- Corporate Communications Sector

Members of Management Board

Director

Corporate Processes

- Research and Development
- Health, Safety and Environment
- Quality Management
- Investment Management

Executive Director

Refining and Wholesale

- Crude Oil and Logistics
- Wholesale
- Refining
- Supply Chain Management

Executive Director

Finance

- Treasury
- Accounting and Tax
- Planning and Controlling
- Resources Allocation Planning
- Divestitures
- Subsidiary Reporting and Integration

Executive Director

Exploration and Production

- Exploration
- Development
- Production
- Commercial
- Well Technology
- Upstream Services Support

Executive Director

Retail Services

- Sales and Retail Business Development
- Network Development and Maintenance
- Marketing
- Card Management

Director

Corporate Services

- Procurement, Storage and Inventory Manangent
- Facilities Management
- Information Technology
- Maintenance Management

INA - MOL Strategic Partnership

Strategic Partnership with MOL

By acquiring 25% plus one share, MOL became INA's strategic partner and INA found its way into an integrated regional oil and gas industry partnership consisting of MOL, INA, Slovnaft and TVK. Since the closing of the transaction in November 2003, the partners have seen synergy effects materializing in tangible results.
In the Upstream business the partners work jointly in cross-border field operations along the Croatian-Hungarian border. Opportunities are investigated for cooperation in international upstream projects. Sharing of risk and combining of financial and human resources will improve operations of both companies. INA is considering a new natural gas import route through Hungary. At the beginning of 2005 INA and MOL introduced the mutual acceptance of each others branded fuel cards at INA's and MOL's petrol stations.
MOL is providing assistance and transfer of knowledge to INA in implementation of an integrated Enterprise Information System, SAP R/3 which has proven its values to MOL for years. The partners have consolidated a marketing strategy for the South East European region, including the review of retail positions and joint bidding for potential acquisitions in the region.

By signing the transaction agreements, MOL has committed its support to INA's strategy and so far it has consistently done so.
The beginning of a comprehensive refinery modernisation project, estimated at USD 800-900 million, will rank INA among the most technically advanced refiners in the region. The project will enable the expanding of refining capacity and reaching EURO V quality standards of oil products which will become effective in 2009.
As partners, INA and MOL have a unique position in a fast-growing Central European oil product market, with leading positions in Croatia and Hungary. In addition, they are strategically well positioned for further expansion in the regional market
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 market activities, the exchange of knowledge and the implementation of joint projects will help us in the realisation of our growth targets in regional oil, natural gas and derivatives markets.

Financial Results

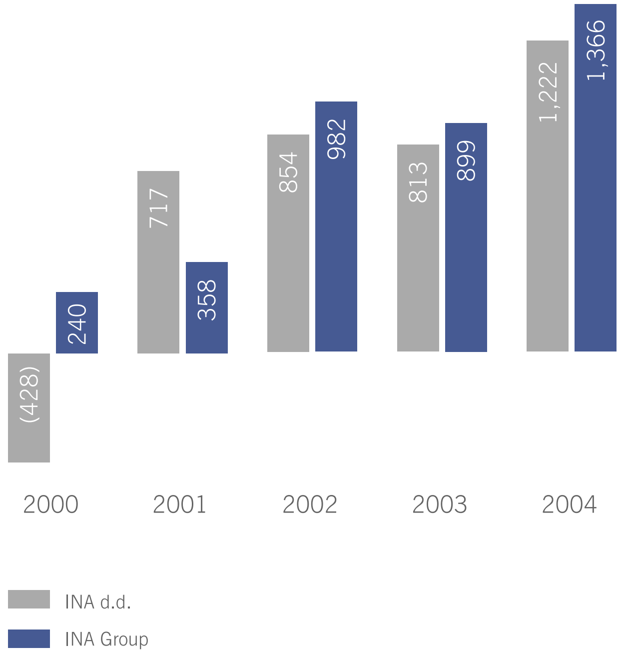
2004 Financial Highlights

INA Group made HRK 3 billion of net cash in its operating activities, 87% up on 2003. The Group's net profit in 2004 before non-recurring items increased by HRK 740 million, from HRK 831 million (USD 124 million) in 2003 to HRK 1,571 million (USD 260 million), more than doubling in USD terms. Including the effects of non-recurring items, the Group's 2004 net profit amounted to HRK 1,366 million (USD 226 million), 52% up on 2003, when net profit of HRK 899 million (USD 135 million) was recorded.
Net profit generated in 2004 by the parent company INA d.d. amounted to HRK 1,222 million (USD 203 million) compared to HRK 813 million (USD 121 million) in 2003.

At INA's Upstream division operating profit grew by HRK 259 million to reach HRK 1,304 million, mainly as a result of 15% higher selling prices of crude (including transfer prices) comfortably offsetting the negative impacts of lower volumes transferred to Refining & Wholesale and lower exports.
After years of losses, Refining & Wholesale generated operating profit of HRK 656 million, primarily as a result of a favourable business environment reflected in high product spreads and improved efficiency in crude oil procurement, supply chain management and pricing. INA's new business model, introduced in 2004, set clear boundaries between the wholesale and retail activities thereby enabling a more focused management. Altogether, R&W's turnaround contributed HRK 1,118 million to the profit increase.
The operating profit of Retail declined to HRK 45 million, which should be regarded as a new profit benchmark after introducing the new business model in 2004.
Operating result of the Corporate Functions segment was a negative HRK 474 million, HRK 94 million less favourable than in 2003 mainly due to asset adjustments.
The above divisional data are unaudited. 2003 segmental data has been adjusted to reflect the individual presentation of the Corporate Functions segment the costs of which were formerly charged to business segments.

Total turnover
HRK millions

Net profit
HRK millions



Effect of non-recurring items on net income

HRK millions

	2004 INA Group	2003 INA Group	2004 INA d.d.	2003 INA d.d.
Provisions for incentive measures for termination of employment in the period 2005-2007	(145)		(145)	
Provisions for ENI tax obligations	(60)		(60)	
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)
Total effect on net income	(205)	68	(205)	68

INA Group cash flows

HRK millions

	2004	2003
Operating activities	3,023	1,613
Investing activities	(2,292)	(2,060)
Financing activities	(319)	(29)
Net increase/decrease of cash	412	(476)

INA's Financial Performance was Influenced by the Following Factors:

- global increase of crude oil prices with the average benchmark price of Brent crude up by 33% compared to 2003 (from 28.83 USD/bbl to 38.26 USD/bbl) pushing up the average net price of imported crude by 25 percent
- favourable spreads of refined product prices
- appreciation of HRK against USD
- effects of non-recurring items

Cash Flow

In 2004, net cash generated by INA Group in its operating activities increased by 87% compared with the prior year figure reaching the amount of HRK 3,023 million. Operating cash flow before working capital changes went up by 47%, indicating a stronger business performance.

Cash used for non-current asset acquisitions amounted to HRK 2,343 million, increasing by 8%, mainly due to development operations in Croatia, exploration activities outside Croatia and refinery modernisation. 2004 net cash outflows in financing activities amounted to HRK 319 million as a result of repayment of long term debt and short term borrowings.

During 2004, total cash for the Group increased by HRK 412 million to reach HRK 714 million as at 31 December 2004.

Liquidity And Solvency

As at 31 December 2004, INA Group's total assets amounted to HRK 17 billion, 66% of which related to non-current assets (compared to 65% in 2003). The equity/total assets ratio improved to 59% (compared to 58% in 2003).
At the end of 2004, the Group's total debt amounted to HRK 1.3 billion, with HRK 462 million falling due in 2005. Long term loans had been agreed in a number of foreign currencies and at different interest rates. 77% of long term debt was denominated in USD, 22% in EUR and the rest in other currencies. During 2004, the Group repaid HRK 406 million of long term debt.

Total assets of INA d.d. as at 31 December 2004 amounted to HRK 15 billion - one billion up over the prior period. Total non-current assets of HRK 10,493 million increased by 13% compared to 31 December 2003, as a result of investments in tangible and intangible assets of HRK 2 billion during 2004. Compared to the prior period, the equity/total assets ratio improved from 57% to 60%.
Net debt of INA d.d. (long term debt plus short term borrowings less cash) as at 31 December 2004 was reduced by HRK 67 million and amounted to HRK 1,022 million. Thus the level of indebtedness (net debt/net debt plus equity) dropped from 12% to 10%.

Long term debt of INA d.d. as at 31 December 2004 amounted to HRK 1,012 million, with HRK 367 million of principal repayments falling due in 2005. 70% of its total debt was USD denominated, 29% was denominated in EUR and the rest in other currencies. Long term debt repaid in 2004 amounted to HRK 330 million.
In August 2004 INA d.d. signed a revolving USD 400 million syndicated long term loan agreement. Under the agreement the credit facility is available for general financing purposes for the period of five years. By 31 December 2004, USD 25 million (HRK 141 million) had been drawn.

Taxes

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

- Excise duty on refined products in the amount of HRK 2.8 billion
- VAT of HRK 706 million
- Corporate tax of HRK 328 million.

Income Statement

In 2004, the parent company INA d.d. increased its net sales by 17% in comparison with the prior year, and its total turnover amounted to HRK 15,924 million (USD 2,637 million). Domestic sales rose by HRK 1.1 billion (or 11%) and represented 71% of total sales. Higher turnover was a result of favourable margins and an active pricing policy.

Total sales of refined products increased by 5 kt (with domestic sales down by 301 kt and exports up by 306 kt) reaching 4,992 kt. The decrease in gasoline sales (including virgin naphtha, by 37 kt), fuel oil (by 23 kt), and other lower margin products (by 21 kt) was offset by 86 kt higher diesel volume that was sold on domestic and strategically important Bosnian markets.

Natural gas sales increased by 155 million cm to 2,869 million cm while sales revenues increased by HRK 111 million with prices for eligible customers fixed and USD denominated, HRK appreciating against the USD.

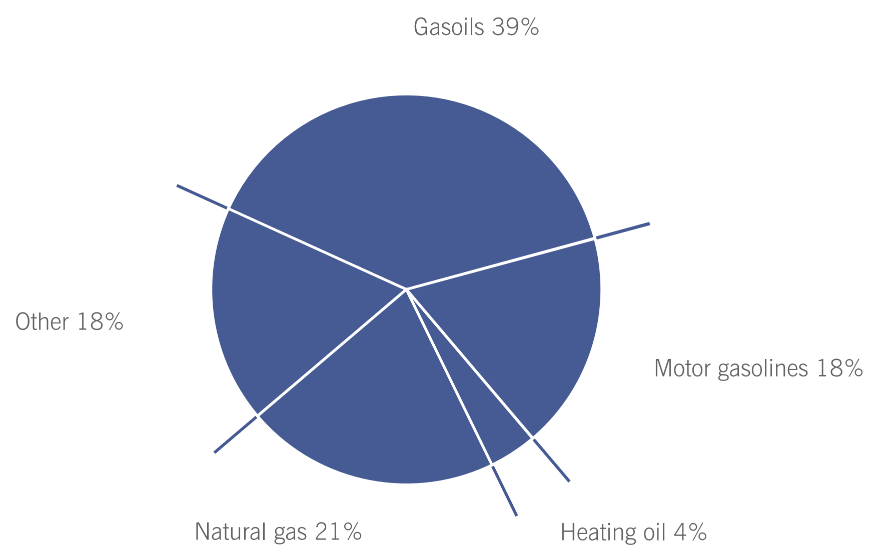
Export revenues amounted to HRK 4,643 million (USD 769 million), 36% up on the prior year due to higher export of virgin naphtha (sales revenue up by 55%), gasoils (by 42%) and fuel oil. Despite lower volume of exports, the revenues from crude oil sales went up by 21%, from LPG sales by 19% and from the sales of motor gasolines by 22%.

In 2004, the discounts were reduced by 47% compared to 2003, which had a positive impact on sales revenues.

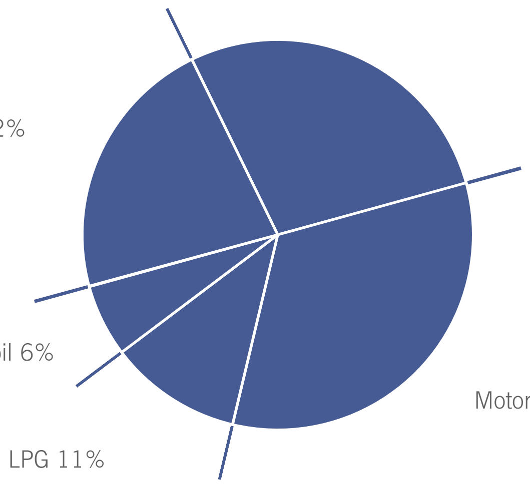
Costs of raw materials and supplies were up by HRK 1,005 million due to increased quantity of refined crude (by 211 kt) and 25% higher average price of crude processed.

Inventories of work in progress and finished products increased by 5% in volume terms.

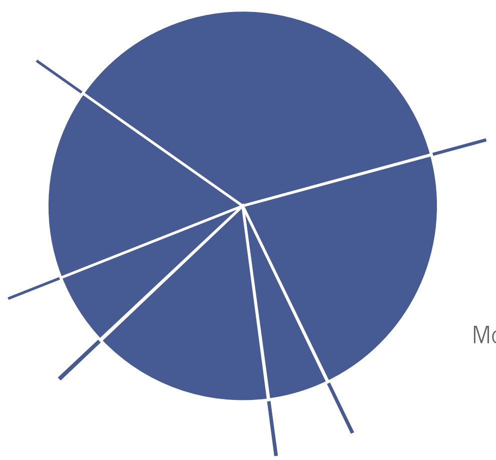
Depreciation was HRK 24 million higher mainly due to the increased depreciation charge in Upstream.



Domestic sales structure in 2004



Export sales structure in 2004



Total sales structure in 2004

Asset adjustments were down by HRK 156 million compared to the prior period as a result of lower impairments under IAS 36.
Total staff costs grew by HRK 28 million. Within that gross salaries, including other disbursements treated as receipts from employment, increased by HRK 34 million while other staff costs decreased by HRK 6 million.
Cost of goods for resale was up by HRK 173 million mainly due to 12% higher sales of imported natural gas.
Other cost items were up by HRK 136 million due to higher costs of road transport services as the tariffs went up by 23% (effective as of 8 September 2004).
Provisions of HRK 145 million were recognised for the future costs of employment termination incentive programme.

Financial income was significantly lower than in 2003 as that period was advantageously impacted by the non-recurring effect of selling shareholding in Privredna Banka Zagreb. Gains on embedded derivatives and foreign exchange gains were also lower.
Financial expense showed a more favourable picture compared to 2003, mainly as a result of lower foreign exchange losses on short term borrowings and lower amount of interest on long term debt.
Corporation tax for 2004 amounted to HRK 296 million (HRK 328 million of taxes less HRK 32 million of deferred taxes). In 2003 INA used a tax credit of HRK 61 million for tax losses carried forward from previous periods.

Balance Sheet

In 2004, INA intensified its international upstream activities, especially in Syria, consequently increasing the value of its intangible assets. Tangible fixed assets grew as a result of domestic field development operations and the operations to increase the production in Angola and Egypt. Refining & Wholesale carried on with the refinery modernisation projects and the rehabilitation projects financed by the EBRD loan. The Retail division intensified the activities for upgrading the outlet network.

The value of year-end inventories was lower than in 2003, significantly influenced by lower value of inventories of raw materials, supplies and merchandise (non-fuel goods). This positive effect was partially neutralised by higher inventories of refined products. The amount of trade receivables (from both domestic sales and exports), net of provisions, increased while other amounts receivable decreased as a result of collecting certain debt previously provided for.

In 2004, cash and cash equivalents increased by HRK 108 million. 34% higher operating cash inflows were used to cover 27% higher investment cash outflows. Cash movements in financing activities was mainly balanced. Outflows arising from long term debt repayments were matched with inflows from new borrowings. The amount of long term provisions increased mainly due to provisions for future decommissioning costs and provisions for incentive terminal benefits during the period 2005-2007. The balance of long term debt was reduced by repayments of debt fallen due and also reflects the drawdown of HRK 141 million from the new USD 400 million credit facility. The amount of current liabilities decreased in comparison with 2003, mainly as a result of lower exports-related current liabilities towards associate companies.

Key financial and operating data INA Group

	2004	2003	2004/2003 %
Key financial data			
Net sales revenues (HRK millions)	17,988	15,345	117
EBITDA (HRK millions)	2,578	1,443	179
Operating profit (HRK millions)	1,687	587	287
Profit before taxation (HRK millions)	1,674	915	183
Profit for the year (HRK millions)	1,366	899	152
Operating cash flow (HRK millions)	3,023	1,613	187
Capital expenditures and investments (HRK millions)	2,339	2,370	99
Return On Equity (ROE), %	16.66	10.32	161
Return On Capital Employed (ROCE), %	15.32	5.54	277
Key operating data			
Net proved reserves			
- crude oil (million bbl)	74.17	68.40	108
- natural gas (million boe)	178.04	153.91	116
Total hydrocarbons (million boe)	252.21	222.31	113
Daily average net production			
- crude oil (thousand bbl/day)	18.90	20.27	93
- natural gas (thousand boe/day)	31.49	31.45	100
Total hydrocarbons (thousand boe/day)	50.39	51.72	97
Gas sales			
Natural gas sales (million m^3/33,338.35 kJ)	2,868.70	2,713.68	106
LPG sales (kt)	77.67	75.83	102
Crude oil and condensates sales			
- domestic sales (kt)	896.56	960.33	93
- export sales (kt)	150.04	153.45	98
Total crude oil and condensates sales (kt)	1,046.60	1,113.78	94
Number of filling stations			
- Croatia	428	423	101
- region*	46	50	92
Total number of filling stations	474	473	100

*excludes inaccessible sites

Key financial and operating data INA d.d.

	2004	2003	2004/2003 %
Key financial data			
Net sales revenues (HRK millions)	15,924	13,590	117
EBITDA (HRK millions)	2,222	1,167	190
Operating profit (HRK millions)	1,531	500	306
Profit before taxation (HRK millions)	1,518	817	186
Profit for the year (HRK millions)	1,222	813	150
Operating cash flow (HRK millions)	2,052	1,529	134
Capital expenditures and investments (HRK millions)	2,065	1,993	104
Return On Equity (ROE), %	16.72	10.22	164
Return On Capital Employed (ROCE), %	15.16	5.51	275
Key operating data			
Net proved reserves			
- crude oil (million bbl)	74.17	68.40	108
- natural gas (million boe)	178.04	153.91	116
Total hydrocarbons (million boe)	252.21	222.31	113
Daily average net production			
- crude oil (thousand bbl/day)	18.90	20.27	93
- natural gas (thousand boe/day)	31.49	31.45	100
Total hydrocarbons (thousand boe/day)	50.39	51.72	97
Gas sales			
Natural gas sales (million m^3/33,338.35 kJ)	2,868.70	2,713.68	106
LPG sales (kt)	77.67	75.83	102
Crude oil and condensates sales			
- domestic sales (kt)	896.56	960.33	93
- export sales (kt)	150.04	153.45	98
Total crude oil and condensates sales (kt)	1,046.60	1,113.78	94
Number of filling stations			
- Croatia	410	405	101
- region*	40	44	91
Total number of filling stations	450	449	100

*excludes inaccessible sites

Financial Statements

Contents

94	Responsibility for the financial statements
95	Independent auditors' report
96	INA Group consolidated income statement
97	INA Matica company income statement
98	INA Group consolidated balance sheet
100	INA Matica company balance sheet
102	INA Group consolidated statement of changes in equity
103	INA Matica company statement of changes in equity
104	INA Group consolidated cash flow statement
105	INA Matica company cash flow statement
106	Notes to the financial statements
158	Appendix 1: INA Group consolidated income statement translated into USD (unaudited)
159	Appendix 2: INA Matica company income statement translated into USD (unaudited)
160	Appendix 3: INA Group consolidated balance sheet translated into USD (unaudited)
162	Appendix 4: INA Matica company balance sheet translated into USD (unaudited)

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

17 March 2005

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 2004 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 31. 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 84, 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 2004 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, 27 April 2004 (beginning of fieldwork)
Zagreb, 17 March 2005

INA Group consolidated income statement

Year ended 31 December 2004

(all amounts in HRK millions)

	Notes	Year ended 31 December 2004	2003
Sales income			
a) domestic		11,766	10,660
b) exports		6,222	4,685
Total sales income	3	17,988	15,345
Other income		923	1,111
Changes in inventories of finished goods and work in progress		100	(94)
Cost of raw materials and consumables		(8,293)	(7,336)
Depreciation, depletion and amortisation	4	(891)	(856)
Other material costs		(2,004)	(1,822)
Non-material costs		(955)	(972)
Staff costs	5	(1,969)	(1,899)
Cost of other goods for resale		(2,794)	(2,366)
Current and non-current asset adjustments		(266)	(510)
Provisions for charges and risks		(152)	(14)
Operating profit		1,687	587
Financial income	6	354	783
Financial expense	7	(367)	(455)
Net (loss)/profit from financial activities		(13)	328
Profit on ordinary activities before taxation		1,674	915
Current taxation	8	(340)	(77)
Deferred taxation	8	32	61
Profit on ordinary activities after taxation		1,366	899
Minority interests	25	-	-
Profit for the year		1,366	899

Signed on behalf of the Group on 17 March 2005

T. Dragičević L. Geszti

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

INA Matica company income statement

Year ended 31 December 2004

(all amounts in HRK millions)

	Notes	Year ended 31 December 2004	2003
Sales income			
a) domestic		11,281	10,165
b) exports		4,643	3,425
Total sales income	3	15,924	13,590
Other income		406	499
Changes in inventories of finished goods and work in progress		99	(98)
Cost of raw materials and consumables		(7,872)	(6,867)
Depreciation, depletion and amortisation	4	(691)	(667)
Other material costs		(1,762)	(1,546)
Non-material costs		(776)	(795)
Staff costs	5	(1,248)	(1,220)
Cost of other goods for resale		(2,067)	(1,894)
Current and non-current asset adjustments		(337)	(493)
Provisions for charges and risks		(145)	(9)
Operating profit		1,531	500
Financial income	6	216	582
Financial expense	7	(229)	(265)
Net (loss)/profit from financial activities		(13)	317
Profit on ordinary activities before taxation		1,518	817
Current taxation	8	(328)	(65)
Deferred taxation	8	32	61
Profit for the year		1,222	813

Signed on behalf of the Company on 17 March 2005

T. Dragičević L. Geszti

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

INA Group consolidated balance sheet

31 December 2004

(all amounts in HRK millions)

	Notes		2004		2003
ASSETS					
B. Non-current assets					
Intangible fixed assets	9		1,399		886
Tangible fixed assets	10		9,095		8,191
Investments in associate and joint ventures	12	153		150	
Investments in other companies	13	262		402	
Total investments			415		552
Long term receivables	14		218		238
Deferred tax	8		93		61
Total non-current assets			11,220		9,928
C. Current assets					
Inventories	15		2,362		2,500
Trade receivables, net		1,983		1,938	
Other receivables		188		237	
Total receivables			2,171		2,175
Investments			328		349
Cash at bank and in hand			714		334
Total current assets			5,575		5,358
D. Prepayments and accrued income			157		87
F. TOTAL ASSETS			16,952		15,373

	Notes		2004		2003
EQUITY AND LIABILITIES					
A. Capital and reserves					
Paid-up share capital	23		9,000		9,000
Revaluation reserves			(141)		-
Other reserves	24		2,349		2,391
Retained losses brought forward			(2,532)		(3,431)
Profit for the year			1,366		899
Equity			10,042		8,859
Minority interests	26		6		6
Total capital employed			10,048		8,865
B. Long term provisions	22		1,169		965
C. Non-current liabilities					
Long term loans	20	842		1,125	
Other non-current liabilities	21	178		219	
Total non-current liabilities			1,020		1,344
D. Current liabilities					
Bank loans and overdrafts	17	836		936	
Accounts payable and other short term liabilities	18	3,230		2,842	
Total current liabilities			4,066		3,778
E. Accruals and deferred income	19		649		421
Total liabilities			6,904		6,508
F. TOTAL EQUITY AND LIABILITIES			16,952		15,373

Signed on behalf of the Group on 17 March 2005

T. Dragičević L. Geszti

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

INA Matica company balance sheet

31 December 2004

(all amounts in HRK millions)

		Notes		2004		2003
ASSETS						
B.	Non-current assets					
	Intangible fixed assets	9		1,386		873
	Tangible fixed assets	10		7,406		6,530
	Investments in subsidiaries	11	964		1,027	
	Investments in associate and joint ventures	12	51		55	
	Investments in other companies	13	246		388	
	Total investments			1,261		1,470
	Long term receivables	14		347		374
	Deferred tax	8		93		61
	Total non-current assets			10,493		9,308
C.	Current assets					
	Inventories	15		1,994		2,192
	Intercompany receivables		382		369	
	Trade receivables, net	16	1,456		1,398	
	Other receivables		128		208	
	Total receivables			1,966		1,975
	Investments			322		311
	Cash at bank and in hand			207		99
	Total current assets			4,489		4,577
D.	Prepayments and accrued income			145		144
F.	TOTAL ASSETS			15,127		14,029

		Notes		2004		2003
EQUITY AND LIABILITIES						
A.	Capital and reserves					
	Paid-up share capital	23		9,000		9,000
	Revaluation reserves			(141)		-
	Other reserves	24		1,951		1,951
	Retained losses brought forward			(2,953)		(3,766)
	Profit for the year			1,222		813
	Equity			9,079		7,998
B.	Long term provisions	22		1,119		920
C.	Non-current liabilities					
	Long term loans	20	645		799	
	Other non-current liabilities	21	175		203	
	Total non-current liabilities			820		1,002
D.	Current liabilities					
	Intercompany payables		1,022		1,614	
	Bank loans and overdrafts	17	584		389	
	Accounts payable and other short term liabilities	18	1,950		1,687	
	Total current liabilities			3,556		3,690
E.	Accruals and deferred income	19		553		419
	Total liabilities			6,048		6,031
F	TOTAL EQUITY AND LIABILITIES			15,127		14,029

Signed on behalf of the Company on 17 March 2005

T. Dragičević L. Geszti

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

INA Group consolidated statement of changes in equity

Year ended 31 December 2004
(all amounts in HRK millions)

	Note	Share capital	Other reserves	Revaluation reserves	Retained losses brought forward	Profit for the year	Total
At 31 December 2002		9,000	2,477	-	(4,413)	982	8,046
Exchange differences on translation of the financial statements of foreign entities		-	(86)	-	-	-	(86)
Allocation of the profit for the year to accumulated osses		-	-	-	982	(982)	-
Net profit for the year		-	-	-	-	899	899
At 31 December 2003		9,000	2,391	-	(3,431)	899	8,859
Decrease in fair value of available-for-sale investments		-	-	(141)	-	-	(141)
Exchange differences on translation of the financial statements of foreign entities	24	-	(42)	-	-	-	(42)
Allocation of the profit for the year to accumulated losses		-	-	-	899	(899)	-
Net profit for the year		-	-	-	-	1,366	1,366
At 31 December 2004		9,000	2,349	(141)	(2,532)	1,366	10,042

Signed on behalf of the Group on 17 March 2005

T. Dragičević L. Geszti

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

INA Matica company statement of changes in equity

Year ended 31 December 2004
(all amounts in HRK millions)

	Share capital	Other reserves	Revaluation reserves	Retained losses brought forward	Profit for the year	Total
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
Decrease in fair value of available-for-sale	-		(141)	-	-	(141)
Allocation of the profit for the year to accumulated losses	-	-	-	813	(813)	-
Net profit for the year	-	-	-	-	1,222	1,222
At 31 December 2004	9,000	1,951	(141)	(2,953)	1,222	9,079

Signed on behalf of the Company on 17 March 2005

T. Dragičević L. Geszti

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

INA Group consolidated cash flow statement

Year ended 31 December 2004

(all amounts in HRK millions)

	2004	2003
Operating profit	1,687	587
Depreciation, depletion and amortisation	891	856
Impairment charges for current and non-current assets	266	510
Change in provision for charges and risks and other non-cash items	(38)	(43)
Operating cash flow before working capital changes	2,806	1,910
Decrease/(Increase) in inventories	49	(214)
Increase in receivables and prepayments	(146)	(458)
Increase in payables and accruals	436	388
Taxes paid	(122)	(13)
Net cash inflow from operating activities	3,023	1,613
Cash flows used in investing activities		
Purchase of tangible and intangible assets	(2,343)	(2,165)
Proceeds from sale of non-current assets	37	9
Purchase of investments	(9)	(5)
Dividends received	2	117
Interest received	2	9
Investments and loans to third parties, net	19	(25)
Net cash (outflow) from investing activities	(2,292)	(2,060)
Cash flows from financing activities		
Additional long term borrowings	237	378
Repayment of long term borrowings	(406)	(377)
Net (repayment)/drawdown of short term borrowings	(68)	52
Interest paid on long term loans	(40)	(48)
Other long term liabilities, net	(11)	(7)
Interest paid on short term loans and other financing charges	(31)	(27)
Net cash (outflow) inflow from financing activities	(319)	(29)
Net increase/(decrease) in cash and cash equivalents	412	(476)
At 1 January 2004	334	
Foreign exchange movements	(32)	
At 31 December 2004	714	

Signed on behalf of the Group on 17 March 2005

T. Dragičević L. Geszti

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

INA Matica company cash flow statement

Year ended 31 December 2004

(all amounts in HRK millions)

	2004	2003
Operating profit	1,531	500
Depreciation charges	691	667
Impairment charges for current and non-current assets	337	493
Change in provision for charges and risks and other non-cash items	(45)	(31)
Operating cash flow before working capital changes	2,514	1,629
Decrease/(Increase) in inventories	108	(165)
Increase in receivables and prepayments	(67)	(392)
(Decrease)/Increase in payables and accruals	(395)	457
Taxes paid	(108)	-
Net cash inflow from operating activities	2,052	1,529
Cash flows used in investing activities		
Purchase of tangible and intangible assets	(2,068)	(1,698)
Proceeds from sale of non-current assets	7	7
Purchase of investments	(3)	(23)
Dividends received	4	102
Interest received	4	12
Investments and loans to third parties, net	26	2
Net cash (outflow) from investing activities	(2,030)	(1,598)
Cash flows from financing activities		
Additional long term borrowings	237	71
Repayment of long term borrowings	(330)	(241)
Net drawdown/(repayment) of short term borrowings	223	(2)
Interest paid on long term loans	(29)	(41)
Other long term liabilities	(11)	(9)
Interest paid on short term loans and other financing charges	(13)	(4)
Net cash inflow/(outflow) from financing activities	77	(226)
Net increase/(decrease) in cash and cash equivalents	99	(295)
At 1 January 2004	99	
Foreign exchange movements	9	
At 31 December 2004	207	

Signed on behalf of the Company on 17 March 2005

T. Dragičević L. Geszti

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

Notes to the financial statements
For the year ended 31 December 2004

1. General

History and incorporation
The Company, INA - Industrija Nafte d.d. Zagreb (INA), also known as INA Matica (Parent Company), is a joint stock company majority owned by the Republic of Croatia. INA was founded on 1 January 1964 when the operations of Naftaplin (oil and gas exploration and production) were merged with those of the refineries of Rijeka and Sisak.
By the end of that decade INA had expanded to include the Zagreb refinery, Trgovina (a domestic trade organisation), the OKI and DINA organic petrochemical operations and the Kutina fertiliser plant. In 1974, INA was transformed into a “complex organisation of associated work” or “s.o.u.r.”, a step which also involved the formation of a number of separate companies. The organisation continued in this form until 1990 when, under the terms of Law 42/90 and the 61/91 supplement, INA became a state owned enterprise.
In 1993 INA became a share based company (or “d.d.”) pursuant to Law 60/93. At the date of release of these financial statements, 25% plus one share is owned by MOL Rt. (MOL), while the remaining shares are owned by the Republic of Croatia.
Effective 31 December 1996, the company signed a financial restructuring agreement with the Deposit Insurance and Bank Rehabilitation Agency of the Croatian Government whereby INA divested the majority of its interests in petrochemicals, fertilisers, tourism and banking in consideration for the assumption by the Agency of certain long term debt and interest liabilities.
Effective 11 March 2002, the Croatian Government acquired the company’s subsidiary, Plinacro d.o.o., together with a 21.37% interest in JANAF d.d., the company which owns and operates the Adria pipeline system, in consideration for assuming USD 172 million (HRK 1,438 million) of the company’s long term debt with the London and Paris club.
On 19 March 2002, the Croatian Parliament passed the Law on the Privatisation of INA (Official Gazette 32/02), governing INA’s privatisation process by allocating INA’s shares to several target groups. Under this legislation, up to 25% plus one share were to be sold to a strategic investor, 15% of shares were to be sold on the basis of public tender, the remaining shares were to be sold or exchanged depending on the prevailing market conditions, Croatian war veterans and members of their families were to receive up to 7% without consideration, up to 7% were to be sold to present and former employees of INA Group companies, and the remaining shares were to be exempted to the extent necessary for the compensation to the original, former owners.
The Republic of Croatia will maintain ownership of over 25% plus one share of INA, which will be privatised once Croatia becomes a member of the European Union.
During 2002, the Government solicited for, and received, bids from a number of parties interested in acquiring a strategic investment of 25% plus one share of INA. On 10 November 2003, a transaction was completed whereby MOL Rt. (MOL) acquired 25% plus one share of INA.

Principal activities
The principal activities of INA and its subsidiaries (the Group), are:
(I) exploration and exploitation of oil and gas deposits, primarily onshore and offshore within Croatia; other licence interests are held in Angola, Egypt and Syria;
(II) import of natural gas and sale of imported and domestically produced natural gas to industrial consumers and municipal gas distributors;
(III) refining and production of oil products through refineries located at Rijeka (Urinj) and Sisak, and the Rijeka (Mlaka) and Zagreb lubricants plants;
(IV) distribution of fuels and associated products through a chain of some 458 retail outlets in operation as of 31 December 2004 (throughout Croatia 416 retail outlets, 42 outside Croatia);
(V) trading in crude oil and petroleum products through a network of foreign subsidiaries and representative offices, principally in London, Ljubljana, Sarajevo and Moscow;
(VI) service activities incidental to on-shore and off-shore oil extraction through its drilling and oilfield services subsidiary Crosco d.o.o.
The Group has dominant positions in Croatia over oil and gas exploration and production, oil refining, and the marketing of gas and petroleum products. INA also holds a 16.00% interest in JANAF d.d., the company that owns and operates the Adria pipeline system.
The headquarters of the Group are located in Zagreb, Avenija V. Holjevca 10, Croatia. As at 31 December 2004 the Group employed 16,147 personnel (2003 - 16,084).
The Group comprises a number of wholly and partially owned subsidiaries operating largely within the Republic of Croatia. Foreign subsidiaries include a number of trading subsidiaries which generally act as distributors of INA Group products, suppliers of raw materials, arrangers of finance and as representative offices within their local markets. A full list of the principal subsidiaries is included in Notes 11 and 12 to the financial statements.

Directors and management

Supervisory Board

until 10 March 2004

Slavko Linić	Chairman
Zoltán Áldott	Deputy Chairman
Damir Kuštrak	
Christian Panjol-Tuflija	
Željko Pecek	
György Mosonyi	

since 10 March 2004

Ivan Šuker	Chairman
Zoltán Áldott	Deputy Chairman
Božidar Kalmeta	
Ante Babić	
Branimir Glavaš	
György Mosonyi	

Management Board

until 26 July 2004

Tomislav Dragičević	President of the Board
László Geszti	Vice-president of the Board - Executive Director Finance Function
Željko Belošić	Member of the Board - Executive Director Business Segment Exploration and Production
Boris Čavrak	Member of the Board - Executive Director Business Segment Refining and Wholesale
Sanjin Kirigin	Member of the Board - Executive Director Business Segment Retail Services
Béla Cseh	Member of the Board - Director Corporate Services Function
Milan Ujević	Member of the Board - Director Corporate Processes Function

since 26 July 2004

Tomislav Dragičević	President of the Board
László Geszti	Vice-president of the Board - Executive Director Finance Function
Mirko Zelić	Member of the Board - Executive Director Business Segment Exploration and Production
Zorko Badanjak	Member of the Board - Executive Director Business Segment Refining and Wholesale
Josip Petrović	Member of the Board - Executive Director Business Segment Retail Services
Béla Cseh	Member of the Board - Director Corporate Services Function
Tomislav Thür	Member of the Board - Director Corporate Processes Function

Ivan Đerek is the company secretary of INA d.d.

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 Matica) financial statements

The Company's financial statements represent the aggregation of the assets and liabilities at 31 December 2004 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. (INA Matica) and the companies that it controls. This control is normally evidenced when the Group owns, either directly or indirectly, more than 50% of the voting rights of a Company's share capital and is able to govern the financial and operating policies of an enterprise so as to benefit from its activities. The results of material subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed. All significant intra-group transactions and balances are eliminated. Minority interests include their proportion of the assets and liabilities consolidated.

(d) Reporting currency

The Company's and Group's financial statements are prepared in Croatian Kuna (HRK). The effective exchange rate of the Croatian currency (expressed in Kuna) at 31 December 2004 was 7.67 Kuna per 1 EUR and 5.64 Kuna per 1 USD (31 December 2003 - 7.65 Kuna per 1 EUR and 6.12 Kuna per 1 USD).

The income statements of INA Group and INA Matica for the years ended 31 December 2004 and 2003 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 Matica at 31 December 2004 and 2003 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 associates

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.

Investments in material associates, in the Group accounts are accounted for using the equity method. The consolidated income statement includes both the Group's share of associates' profits less losses and the amortisation of any related goodwill in the year while the Group's share of the net assets of associates is shown in the consolidated balance sheet, adjusted for any related unamortised goodwill.

Investments in immaterial associate companies are generally recorded at cost less provisions for any impairment.

(g) Investments in Joint Ventures

Jointly controlled entities are entities where control is shared with other parties through contractual arrangements and are included in the Group accounts using the method of proportionate consolidation. 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.

Investments in immaterial jointly controlled entities are generally recorded at cost less provisions for any impairment.

(h) 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.

II) Fields under development

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

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 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.

(i) 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.

(j) 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 as described in paragraph (h) above.

(k) 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.

(l) 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.

(m) 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.

(n) 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 and work in progress are valued at the lower of estimated cost of production 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.

(o) 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.

(p) Investments

Material equity investments are treated as available for sale and are measured at their fair values, without any deduction for transaction costs that it may incur on sale or other disposal. Gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for the period.

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

(q) Bank borrowings and borrowing costs

Interest-bearing bank loans and overdrafts are recorded at the proceeds received.

Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis to the profit and loss account using effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. All other borrowing costs are recognised in net profit or loss in the period in which they are incurred.

(r) 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.

(s) 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.

(t) 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.

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

(v) 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.

(x) 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 (h) (iii) above.

Provision for restructuring costs are recognised when the Group has a detailed formal plan for the restructuring that has been communicated to affected parties.

(w) Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with International Reporting Financial Standards, as published by the International Accounting Standards Board requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. The significant areas of estimation used in the preparation of the accompanying financial statements relate to employee benefits, impairment of assets, determination of fair values of assets and liabilities and estimated decommissioning costs.

Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable.

(z) 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

	INA Group 2004 HRK millions	INA Group 2003 HRK millions	INA Matica 2004 HRK millions	INA Matica 2003 HRK millions
Republic of Croatia	11,766	10,660	11,281	10,165
Bosnia and Herzegovina, and Slovenia	3,077	1,789	2,168	1,251
Within the European Union	1,378	1,361	2,289	2,029
Rest of the world	1,767	1,535	186	145
	17,988	15,345	15,924	13,590

Turnover information - business line

	INA Group 2004 HRK millions	INA Group 2003 HRK millions	INA Matica 2004 HRK millions	INA Matica 2003 HRK millions
Oil and gas exploration and production	899	767	637	544
Distribution and wholesaling of natural gas	3,025	2,582	3,025	2,582
Distribution and marketing of petroleum and associated products	12,592	10,818	12,262	10,464
Trading on behalf of third parties	1,472	1,178	-	-
	17,988	15,345	15,924	13,590

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

	INA Group 2004 HRK millions	INA Group 2003 HRK millions	INA Matica 2004 HRK millions	INA Matica 2003 HRK millions
Intangible fixed assets (Note 9)	15	11	10	6
Tangible fixed assets (Note 10b)	876	845	681	661
	891	856	691	667

5. Staff costs

	INA Group 2004 HRK millions	INA Group 2003 HRK millions	INA Matica 2004 HRK millions	INA Matica 2003 HRK millions
Net payroll	1,011	969	654	638
Contributions for pensions and health insurance	671	626	451	428
Other payroll related costs	287	304	143	154
	1,969	1,899	1,248	1,220

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

	INA Group 2004 Headcount	INA Group 2003 Headcount	INA Matica 2004 Headcount	INA Matica 2003 Headcount
Production	6,475	6,474	3,180	3,146
Distribution	4,480	4,372	3,800	3,685
Administration	4,292	4,265	3,019	2,981
Sales and marketing	465	457	65	53
Research and development	435	516	380	460
	16,147	16,084	10,444	10,325

6. Financial income

	INA Group 2004 HRK millions	INA Group 2003 HRK millions	INA Matica 2004 HRK millions	INA Matica 2003 HRK millions
Foreign exchange gains				
- long term loans (Note 20)	76	200	52	168
- other foreign exchange gains	224	342	122	189
Other interest income	31	41	26	36
Dividends	11	117	4	102
Gains on embedded derivatives	9	74	9	74
Interest from financial assets	3	9	3	13
	354	783	216	582

Dividend income in 2003 included HRK 96 million relating to the company's disposal of 2.34% shareholding of Privredna bank d.d.

7. Financial expense

	INA Group 2004 HRK millions	INA Group 2003 HRK millions	INA Matica 2004 HRK millions	INA Matica 2003 HRK millions
Foreign exchange losses	204	289	95	128
Interest payable in respect of long term loans	40	48	29	41
Other interest payable	104	103	103	94
Other financial expenses	19	15	2	2
	367	455	229	265

8. Taxation

	INA Group 2004 HRK millions	INA Group 2003 HRK millions	INA Matica 2004 HRK millions	INA Matica 2003 HRK millions
Current tax expense	340	77	328	65
Deferred tax (benefit) relating to origination and reversal of temporary differences	(32)	(61)	(32)	(61)
Tax expense	308	16	296	4

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

	INA Group 2004 HRK millions	%	INA Matica 2004 HRK millions	%
Accounting profit before taxation	1,674	100	1,518	100
Tax at the applicable tax rate (20%)	335	20	304	20
Tax effect of permanent differences	24	1	24	1
Utilisation of unrecognised deferred tax assets	(19)	(1)	-	-
Current tax expense	340	20	328	21

The applicable tax rate is the profit tax rate of 20% in Croatia for 2004 (2003 - 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.

Changes in deferred tax assets are as follows:

	Value adjustment of current assets HRK millions	Value adjustment of tangible and intangible assets HRK millions	Reversal of depreciation for impaired assets HRK millions	Provision recorded for ENI tax case HRK millions	Value adjustment of financial investments HRK millions	Total HRK millions
At 31 December 2003	21	40	-	-	-	61
Reversal of temporary differences	(15)	(18)	(1)	-	-	(34)
Origination of temporary differences	12	17	-	24	13	66
At 31 December 2004	18	39	(1)	24	13	93

9. Intangible fixed assets - oil and gas properties

	INA Group HRK millions	INA Matica HRK millions
At 31 December 2003	886	873
Additions	584	579
Cancelling provisions from previous years	37	37
Amortisation charge for the year (Note 4)	(15)	(10)
Provisions charged to income statement	(64)	(64)
Transfer to tangible fixed assets	(29)	(29)
At 31 December 2004	1,399	1,386

10. Tangible fixed assets

a) By business segment

			2004			2003
INA Group	Cost or valuation HRK millions	Accumulated depreciation HRK millions	Net book value HRK millions	Cost or valuation HRK millions	Accumulated depreciation HRK millions	Net book value HRK millions
Oil and gas exploration and production, gas storage and oilfield services	20,121	15,311	4,810	19,178	14,901	4,277
Refining	8,219	6,193	2,026	8,191	6,271	1,920
Marketing (Wholesale and Retail)	3,986	2,616	1,370	3,975	2,617	1,358
Other	1,727	838	889	1,192	556	636
	34,053	24,958	9,095	32,536	24,345	8,191

			2004			2003
INA Matica	Cost or valuation HRK millions	Accumulated depreciation HRK millions	Net book value HRK millions	Cost or valuation HRK millions	Accumulated depreciation HRK millions	Net book value HRK millions
Oil and gas exploration and production and gas storage	17,044	12,963	4,081	16,187	12,616	3,571
Refining	8,216	6,190	2,026	7,859	6,108	1,751
Marketing (Wholesale and Retail)	3,343	2,294	1,049	3,322	2,293	1,029
Other	496	246	250	371	192	179
	29,099	21,693	7,406	27,739	21,209	6,530

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 2003	12,187	8,791	10,371	1,106	81	32,536
Additions	1	3	1,723	28	-	1,755
Change of estimate in decommissioning costs	106	-	-	-	-	106
Transfers	272	355	(739)	112	-	-
Disposals	(20)	(75)	(190)	(52)	(7)	(344)
At 31 December 2004	12,546	9,074	11,165	1,194	74	34,053
Accumulated depreciation						
At 31 December 2003	9,894	5,722	7,727	948	54	24,345
Charge for the year (Note 4)	341	202	236	96	1	876
Impairment charge/(write back) (Notes (I) and (IV) below)	(35)	21	3	3	-	(8)
Transfers	(56)	6	16	34	-	-
Disposals	(19)	(57)	(120)	(53)	(6)	(255)
At 31 December 2004	10,125	5,894	7,862	1,028	49	24,958
Net book value						
At 31 December 2003	2,293	3,069	2,644	158	27	8,191
At 31 December 2004	2,421	3,180	3,303	166	25	9,095

Additions to oil and gas properties and assets under construction include own costs capitalised in 2004 of HRK 447 million (HRK 616 million in 2003). Included above are assets under construction of HRK 1,808 million (HRK 1,386 million in 2003) which are not yet subject to depreciation.

INA Matica	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 2003	12,187	7,119	7,765	592	76	27,739
Additions	1	-	1,485	-	-	1,486
Change of estimate in decommissioning costs	106	-	-	-	-	106
Transfers	272	341	(683)	70	-	-
Disposals	(20)	(47)	(143)	(15)	(7)	(232)
At 31 December 2004	12,546	7,413	8,424	647	69	29,099
Accumulated depreciation						
At 31 December 2003	9,894	4,742	5,995	524	54	21,209
Charge for the year (Note 4)	341	151	161	27	1	681
Impairment charge/(write back) (Notes (I) and (IV) below)	(35)	21	3	3	-	(8)
Transfers	(56)	7	16	33	-	-
Disposals	(19)	(47)	(100)	(17)	(6)	(189)
At 31 December 2004	10,125	4,874	6,075	570	49	21,693
Net book value						
At 31 December 2003	2,293	2,377	1,770	68	22	6,530
At 31 December 2004	2,421	2,539	2,349	77	20	7,406

Additions to plant and machinery and assets under construction include own costs capitalised in 2004 of HRK 14 million (HRK 27 million in 2003).

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 Naftaplin made an assessment of the quantities of the Company's remaining proved developed oil and gas reserves which are commercially recoverable as at 31 December 2004. 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 previously impaired, the net book value was exceeded by the discounted future net revenues and the carrying values of those properties was written back accordingly. An impairment write back of HRK 35 million was credited to the income statement, included within current and non current asset adjustments.

Prior to 1 January 1993, development drilling costs where not capitalised, but these costs charged the income statement and wells were not recorded in business books as assets. In year 2005, the Company started a procedure to assess any upstream production assets that were not recorded in the Company's books. As a result of this assessment additional assets might be recorded in the Company's records.

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 2,539 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 2004, the net book values of the Company's and Group's refining and marketing fixed assets were HRK 3,075 million and HRK 3,396 million respectively.

Following the conclusion of the tender process initiated by the Government in 2002, and the resulting acquisition by MOL during the year of 25% plus one share of the Company, the Management Board has reviewed its plans for its refining and 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 27 million (IAS 36) which has been included in 'current and non current asset adjustments' in the year.

11. Investments in subsidiaries

	2004 HRK millions	2003 HRK millions
Investments in share capital of subsidiaries (INA Matica)	964	1,027

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

	INA Matica HRK millions
At 31 December 2003	1,027
Additions	3
Provisions against investments	(66)
At 31 December 2004	964

The Company's financial statements comprise the financial statements of the following divisions:

- INA Naftaplin (exploration and production)
- Rijeka Refinery (Urinj)
- Sisak Refinery
- Lubricants Mlaka
- Wholesale, crude oil procurement & logistic
- INA Retail
- INA Card
- Corporate functions

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

Name of company	Activity	Shareholding
Oilfield services		
*Crosco Naftni Servisi d.o.o., Zagreb	Oilfield services	100%
Crosco International Limited, Guernsey	Oilfield services	100%
Nordic Shipping Ltd, Marshall Islands	Platform ownership	100%
Sea Horse Shipping Inc, Marshall Islands	Platform ownership	100%
Crosco Drilling & Well Services (UK) Limited	Financing	100%
Crosco International d.o.o., Slovenia (from 18 June 2004)	Oilfield services	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 Integrirani tehnički servisi d.o.o., Zagreb	Technical services	100%
*Sinaco d.o.o., Sisak	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%

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 Ltd, 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 i 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%
*INA d.o.o. Beograd, Serbia and Montenegro (from 12 August 2004)	Foreign trading	100%
*Infocentar d.o.o., Zagreb (dormant)	Information technology	100%
*Adriagas S.r.l., Milan, Italy	Pipeline project company	100%
*INA Crna Gora d.o.o., Kotor	Foreign trading	100%
*INA Crobenz d.d., Zagreb (27 September 2004 INA Cropetrol changed the name of company into Crobenz)	Trading	98%
*Petrol d.d., Rijeka	Trading	83%
*INA-Osijek - Petrol d.d.	Trading	76%

The Group also has representative offices in the following locations:

Moscow, Russia	Baku, Azerbaijan
Tirana, Albania	Nagykanizsa, Hungary
Damascus, Syria	Tehran, Iran (dormant)
Cairo, Egypt	Tunis, Tunisia
Luanda, Angola	Priština, Kosovo
Tripoli, Libya	Skopje, Makedonija
Rabat, Morocco	Windhoek, Namibia

12. Investments in associates and joint ventures

INA Group	2004 HRK millions	2003 HRK millions
Joint venture company - Noble Crosco Drilling Ltd	100	93
Other investments in associates and joint ventures	53	57
	153	150

INA Matica		
Other investments in associates and joint ventures	51	55
	51	55

Joint venture company - Noble Crosco Drilling	2004 HRK millions	2003 HRK millions
Group's share of net assets on formation	114	114
Cumulative share of profit since formation	23	15
	137	129
Cumulative foreign currency translation adjustment	7	10
Less unamortised negative goodwill	(44)	(46)
Investment in joint venture company at 31 December	100	93

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

During 2000, the Group contributed Panon, a drilling platform and related assets, formerly held by a wholly owned subsidiary, in exchange for a 50% interest in Noble Crosco Drilling Ltd, a jointly controlled company. As part of the same transaction, INA's joint venture partner contributed cash in the amount of HRK 114 million in exchange for a 50% interest in Noble Crosco Drilling Ltd.
The Group's investment in Noble Crosco Drilling Ltd is accounted for in the Group's financial statements under the equity method, whereby the investment is carried at the Group's share in the fair value of the net assets on formation, adjusted for subsequent profits and losses, and net of negative goodwill. The negative goodwill is credited to other income over the period of the joint venture, based on the useful life of the assets contributed.

			2004	2003
Name of company	Activity	% shareholding held by INA companies	INA Group HRK millions	INA Group HRK millions
Croplin d.o.o., Zagreb	Petroleum retailing	33%	23	23
SOL-INA d.o.o.	Industrial gas production	37%	22	22
Mideast Integrated Drilling & Well Services Company LLC, Oman	Oilfield services	49%	2	2
Polybit d.o.o., Rijeka (jointly controlled company)	Production & trade of petroleum products	50%	2	1
INAgip d.o.o., Zagreb	Exploration and production operator (joint venture)	50%	1	1
Adriaoil S.p.A, Milan	Trading	50%	1	1
Energometan Samobor d.o.o., Samobor	Gas distribution	33%	1	4
Adria LNG Study Company Ltd	Oil exploration	22%	1	1
ED INA d.o.o., Zagreb	Research, development and hydrocarbon production	50%	-	1
Geotehnika International LLC, Abu Dhabi UAE (from 1999, active from 2004)	Oilfield services	49%	-	-
Belvedere d.d., Dubrovnik	Hotel	32%	-	-
Plinara d.o.o., Pula	Gas distribution and marketing	49%	-	1
			53	57

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. Investments in other companies

INA Group	2004 HRK millions	2003 HRK millions
JANAF d.d.	180	321
Other investments	82	81
	262	402

INA Matica		
JANAF d.d.	180	321
Other investments	66	67
	246	388

JANAF d.d.

Investment classified as “available for sale” under IAS 39 Name of company	Activity	% shareholding held by INA
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 29, a substantial portion of the trading income of JANAF d.d. is derived from INA. Value of investment in Janaf is based on market value of a share (the last one) noted in the Zagreb Stock Exchange at 31 December 2004. The value of this share at 31 December 2004 was 1,510 HRK. Volatility of JANAF quotation is significant and after balance sheet date value of this share increased.

14. Long term receivables

INA Group	2004 HRK millions	2003 HRK millions
Amounts receivable from employees for apartments sold	202	213
Other long term receivables	16	25
	218	238

INA Matica		
Amounts receivable from employees for apartments sold	202	213
Long term receivables from Proplin	68	68
Long term receivables from Crosco	41	47
Other long term receivables	36	46
	347	374

Prior to 1996, the Company had sold apartments it owned to its employees, the sale of which were governed by the laws of the Republic of Croatia. This property was generally sold on credit, and the related housing receivables are repayable on a monthly basis over periods of 20-35 years. The amounts payable to Croatian state which represents 65% of the value of sold apartments are included in other non-current liabilities (Note 21). The receivables are secured by mortgages over the sold apartments.

15. Inventories

INA Group	2004 HRK millions	2003 HRK millions
Refined products	1,080	939
Spare parts, materials and supplies	540	543
Crude oil	468	634
Gas inventories	274	384
	2,362	2,500

INA Matica		
Refined products	1,005	862
Crude oil	468	634
Gas inventories	274	384
Spare parts, materials and supplies	247	312
	1,994	2,192

There is no material difference between the carrying value and replacement cost, at the balance sheet date, of the stocks of crude oil and refined products of the Company and the Group.
Pursuant to Ordinance on obligatory stock of oil and oil derivates follows that INA is obligator of insuring obligatory stock of oil and oil derivatives in required quantities.
Based on realised net import (difference between import and export), obligatory INA stock as at 31 December 2004 amount to 344,288 oil units (15% of annual net import), out of total 554,404 oil units held on inventories balances as at year end.

16. Trade receivables of the company

Trade receivables of the company of HRK 1,456 million (HRK 1,398 million in 2003) are stated net of provisions for doubtful receivables. Other income in 2004 includes an amount of HRK 25 million (HRK 113 million in 2003) relating to collection of receivables previously provided for.

17. Bank loans and overdrafts

INA Matica	Repayment terms	Security / Guarantee	2004 HRK millions	2003 HRK millions
Overdrafts and short term loans			217	6
Current portion of long term loans (Note 20)			367	383
Total INA Matica			584	389

INA Group				
BNP Paribas (USD)	by 22.01.2004	INA d.d. guarantee	-	285
Nova Ljubljanska banka, Ljubljana (SIT)	by 18.11.2005	-	7	6
Natexis Bank (USD)	by 30.01.2004	INA d.d. guarantee	-	40
Probanka d.d. (SIT)	by 19.02.2005	-	3	-
Raiffeisenbank Zagreb (EUR, USD and HRK)	by 15.12.2005	-	38	33
OIB Oman (USD)	by 31.12.2004	INA d.d. guarantee	-	12
Zagrebačka banka, Zagreb (EUR, USD, HRK)	by 17.06.2005	-	18	23
Privredna banka Zagreb, Zagreb (HRK)	by 31.12.2005	-	5	13
Bank Muscat (USD)	by 31.12.2005	-	9	-
Hrvatska Poštanska banka (EUR, HRK)	by 31.07.2005	-	11	23
Splitska banka (USD, HRK)	by 30.09.2005	-	61	30
Other overdrafts and short term loans			5	16
Current portion of long term loans (Note 20)			95	66
Total INA Group			836	936

Interest is payable on the above loans at rates based on LIBOR plus up to 2%. The Company uses several short term bank loans to manage its short term cash flow cycle, including facilities arranged through Interina Guernsey and Inter Ina Limited, wholly owned subsidiaries (Note 11). These loans are typically settled in full every 60 days on a revolving basis.

18. Accounts payable and other short term liabilities

INA Group	2004 HRK millions	2003 HRK millions
Trade payables	2,202	2,099
Production and sales taxes payable and other taxes	715	439
Payroll and payroll taxes	160	158
Other creditors	153	146
	3,230	2,842

INA Matica		
Trade payables	1,139	1,109
Production and sales taxes payable and other taxes	698	436
Payroll and payroll taxes	72	101
Other creditors	41	41
	1,950	1,687

19. Accruals and deferred income

INA Group	2004 HRK millions	2003 HRK millions
Provision against decision of Tax Office	144	144
Provision against legal disputes	143	137
Provision against obligation towards ENI	120	-
Provision for redundancy costs	81	-
Provision against tax obligation of Holdina Sarajevo	55	53
Accrued interest - long term loans	14	20
Other accruals and deferred income	92	67
	649	421

INA Matica		
Provision against decision of Tax Office	144	144
Provision against legal disputes	143	137
Provision against obligation towards ENI	120	-
Provision for redundancy costs	81	-
Accrued interest - long term loans	14	20
Other accruals and deferred income	51	118
	553	419

On the base of the Management Board decision, the Company made a schedule on redundancy costs in period from 2005 to 2007, for employees who have a right to realise old-age pension or premature retirement by which the pension can be bought and retirement benefits realised, and for invalid and other workers with no right to be pensioned, but are willing to leave the Company with benefit compensation.
Accordingly, the Company recorded HRK 81 million as short term provisions for those costs in year 2005 and HRK 64 million as long term provisions (Note 22).

20. Long term loans

Long term loans are denominated in a variety of foreign currencies and are subject to a range of interest rates. The loans of the Company and the Group outstanding at 31 December 2004 and 2003 are analysed as follows:

	Loan Description	Loan Currency	2004 HRK millions	2003 HRK millions
Mizuho/Zagrebačka banka	Syndicates/revolving	USD	483	787
Banco Commerciale Italiana	Pipeline construction	USD	59	118
PBZ - API 80003	Loan	USD	2	2
Erste & Steiermarkische Bank	Loan (equipment)	USD, EUR	43	49
Viktor Lenac	Loan (equipment)	various	12	13
Jugobanka	Loan (equipment)	JPY	16	17
Montana Gas	Gas supply loan	EUR	48	74
Hypovereins Bank	Loan	EUR	9	20
EBRD	Environmental	EUR	199	102
Mizuho/PBZ	Syndicates/revolving	USD	141	-
			1,012	1,182
Payable within 1 year			(367)	(383)
Total long term loans - INA Matica			645	799
Other long term Group loans			292	392
Payable within 1 year			(95)	(66)
Total long term loans - INA Group			842	1,125

INA Matica	Weighted average interest rate 2004 %	Weighted average interest rate 2003 %	2004 HRK millions	2003 HRK millions
Bank loans in USD	2.59	3.02	706	933
Bank loans in EUR	4.37	4.82	289	231
Bank loans in JPY	5.17	5.17	16	17
Bank loans in DKK	2.75	4.03	1	1
Total			1,012	1,182
Payable within 1 year			(367)	(383)
Total long term loans - INA Matica			645	799

INA Group				
Bank loans in USD	3.21	3.09	998	1,325
Bank loans in EUR	4.37	4.82	289	231
Bank loans in JPY	5.17	5.17	16	17
Bank loans in DKK	2.75	4.03	1	1
Total			1,304	1,574
Payable within 1 year			(462)	(449)
Total long term loans - INA Group			842	1,125

The maturity of loans is summarised as follows:

	INA Group 2004 HRK millions	INA Group 2003 HRK millions	INA Matica 2004 HRK millions	INA Matica 2003 HRK millions
Current portion of long term debt	462	449	367	383
Maturity one to two years	485	460	322	359
Maturity two to three years	218	441	184	330
Maturity three to four years	44	104	44	27
Maturity four to five years	45	65	45	28
Maturity over five years	50	55	50	55
Total	1,304	1,574	1,012	1,182

The principal long term loans outstanding at 31 December 2004 and the principal new loans drawn down and repaid during 2004 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 at 31 December 2004 USD 86 million (HRK 483 million) had been drawn down. This loan is repayable in seven equal half yearly instalments and bears interest at LIBOR plus 1.3% annually.

b) Privredna bank Zagreb

Remaining INA's long term liabilities toward Privredna Bank amount to HRK 2 million and it is relative to Refinancial bonds contract based on issue of bonds - API. Debt is standstill and will be refinanced. From totally USD 375 thousands it was matured USD 239 thousands. As collateral bank used bills of exchange.

c) Erste & Steiermarkische bank, Viktor Lenac and Jugobanka

These were loans for financing imported equipment necessary for building and delivering platform Labin. The balance outstanding at 31 December 2004 was HRK 55 million (in USD, EUR,DKK). Interest is payable on 31 January and 31 July annually (various interest rates)

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

	INA Group HRK millions	INA Matica HRK millions
At 31 December 2003	1,574	1,182
New loans	237	237
Repayments	(431)	(355)
Foreign exchange translation (gain)	(76)	(52)
At 31 December 2004	**1,304**	**1,012**
Payable within 1 year (included within bank loans and overdrafts - Note 17)	(462)	(367)
Payable after more than 1 year	842	645

Loans from Jugobanka were used for production goods and equipment. The balance outstanding at 31 December 2004 was HRK 16 million. Interest rates are fixed 4.90% and 5.30% . Loans are agreed with creditors under Paris Club's conditions.

d) Banco Commerciale Italiana (Banca Intesa)

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 2004 was USD 10.5 million (HRK 59 million). The guarantee used is issued by ENIFIN SpA.

e) MIZUHO Corporate Bank Ltd and Privredna Bank Zagreb

In August 2004 Company concluded a syndicated long term loan contract with Mizuho Corporate Bank Ltd. Loan is approved in amount to USD 400 million for a five year term. It is used USD 25 million (HRK 141 million) until December 2004. The Company will use all lent amount in general purposes of financing. Paying is agreed in half-yearly interests and maturity of the first instalment is on 23 August 2007 by interest six-monthly Libor plus 0.7%.

21. Other long term liabilities

INA Group	2004 HRK millions	2003 HRK millions
Liabilities to Government for sold apartments	112	142
Deferred income for sold apartments	63	61
Other long term liabilities	3	16
	178	219

INA Matica		
Liabilities to Government for sold apartments	112	142
Deferred income for sold apartments	63	61
	175	203

The long term payable to the Government relates to the obligation arising on the sale of housing units to employees under the government program (Note 14). According to the law regulating housing sales, 65% of the proceeds from the sale of apartments to employees were payable to the state at such time as the proceeds were collected by the Company. According to the law, INA has no liability to remit the funds unless and until they are collected from the employee.

22. Provisions

INA Group	Decommissioning HRK millions	Redundancy costs (Note 19) HRK millions	Other HRK millions	Total HRK millions
At 31 December 2003	851	-	114	965
Charge for the year	70	64	7	141
Effect of change in estimates, capitalised	106	-	-	106
Provision utilised during the year	(38)	-	(5)	(43)
At 31 December 2004	**989**	**64**	**116**	**1,169**

INA Matica				
At 31 December 2003	851	-	69	920
Charge for the year	70	64	-	134
Effect of change in estimates, capitalised	106	-	-	106
Provision utilised during the year	(38)	-	(3)	(41)
At 31 December 2004	**989**	**64**	**66**	**1,119**

23. Paid-up share capital

	INA Group and INA Matica 2004 HRK millions	INA Group and INA Matica 2003 HRK millions
10 million shares (HRK 900 each)	9,000	9,000

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. Share Capital is majority owned by the Republic of Croatia, while shares have been deposited (in their non-material form) in the Central Depositary Agency.
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.

24. 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 were as follows:

INA Group	Combinede reserves at 31 December 1993 HRK millions	Foreign currency translation reserve HRK millions	Other reserves HRK millions	Total HRK millions
At 31 December 2003	2,132	(188)	447	2,391
Movements during 2004	-	(42)	-	(42)
At 31 December 2004	2,132	(230)	447	2,349
INA Matica				
At 31 December 2003	1,667		284	1,951
At 31 December 2004	1,667		284	1,951

25. Disposals

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 2003 or 2004.

26. Minority interests

	INA Group HRK millions
At 31 December 2003	6
At 31 December 2004	6

27. 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 17.

28. 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, but currently there is no legal environmental obligation for the Company and the Group. Accordingly, no provisions, other than an accrual for future costs relating to the decommissioning of the Company's oil and gas properties (Note 22), 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.

Croatia requested membership to European Union. As part of succession process strict environmental regulations similar to those at other EU countries might be introduced in Croatia. Such environmental regulations might result in significant environmental obligations to the Group.

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 (2003 - 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 made a complaint to secondary liability Tax authority to appeal against 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

According to the Collective Agreement the Company and Group have obligation to pay jubilee awards, retirement and other benefits to employees. Accordingly, the Company recorded HRK 33 million provisions against jubilee awards, and HRK 81 million provisions against retirement compensation costs.

The Group does not operate any pension schemes, so no other provisions but these mentioned above have been made.

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.

29. 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 1,263 million in 2004 (2003 - HRK 1,409 million) of which HRK 487 million (2003 - HRK 640 million) represented sales, principally for oilfield services, directly to INA Matica and other group companies.

The Company is also a the principal customer for its new subsidiaries STSI d.o.o. and Maziva Zagreb d.o.o which were formed during 2002 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 16.00% interest (Note 13). Approximately HRK 49 million of JANAF d.d.'s turnover of HRK 321 million in 2004 (2003 - HRK 56 million and HRK 329 million respectively) represented sales income from INA Matica for the Company's use of JANAF d.d.'s pipeline system.

30. 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 2004 and 2003 there were no open derivatives contracts.

The Group's largest markets are the Croatian refined products and wholesale gas markets. Except for specific arrangements with certain major customers, prices of refined products and natural gas in Croatia have, historically, been determined in consultation with the Government. Government policy with respect to refined product prices changed significantly, with effect from 18 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 20.

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 42 million (2003 - HRK 86 million), which are credited directly to reserves in accordance with IAS 21 (Note 24).

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 2004 and 2003 the carrying amounts of cash and short term deposits, accounts receivable, accounts payable and accrued expenses, and short term borrowings approximated their fair values due to the short term maturities of these assets and liabilities. The fair values of long term loans, which predominantly bear interest at floating rates, are not materially different from their carrying values.

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

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

	INA Group and INA Matica 2004 HRK millions
Fair value at 1 January 2004	273
Financial income relating to the net change in fair value in the year (Note 6)	9
Fair value at 31 December 2004	282

31. Approval of the financial statements

These financial statements were approved by the Board and authorised for issue on 17 March 2005.
Signed on behalf of the Company on 17 March 2005

T. Dragičević L. Geszti

Appendix 1

INA Group consolidated income statement translated into USD (unaudited)
For the year ended 31 December 2004

	2004 USD millions	2003 USD millions
Sales income	2,978	2,298
Own costs capitalised	74	92
Other income	79	74
Total operating income	3,131	2,464
Cost of raw materials and consumables	(1,373)	(1,098)
Depreciation, depletion and amortisation	(148)	(129)
Other material costs	(332)	(273)
Non-material costs	(158)	(146)
Staff costs	(326)	(284)
Cost of other goods for resale	(463)	(354)
Current and non-current asset adjustments	(44)	(76)
Provision for charges and risks	(25)	(2)
Changes in inventories of finished goods and work in progress	17	(14)
Total operating costs	(2,852)	(2,376)
Operating profit	279	88
Financial income	59	117
Financial expense	(61)	(68)
Net profit from financial activities	(2)	49
Profit on ordinary activities before taxation	277	137
Taxation	(51)	(2)
Profit on ordinary activities after taxation	226	135
Minority interests	-	-
Profit for the year	226	135

Appendix 2

INA Matica company income statement translated into USD (unaudited)
For the year ended 31 December 2004

	2004 USD millions	2003 USD millions
Sales income	2,637	2,035
Own costs capitalised	2	4
Other income	65	71
Total operating income	2,704	2,110
Cost of raw materials and consumables	(1,303)	(1,028)
Depreciation, depletion and amortisation	(114)	(100)
Other material costs	(292)	(232)
Non-material costs	(129)	(119)
Staff costs	(206)	(183)
Cost of other goods for resale	(342)	(284)
Current and non-current asset adjustments	(56)	(73)
Provisions for charges and risks	(24)	(1)
Changes in inventories of finished goods and work in progress	16	(15)
Total operating costs	(2,450)	(2,035)
Operating profit	254	75
Financial income	36	87
Financial expense	(38)	(40)
Net profit from financial activities	(2)	47
Profit on ordinary activities before taxation	252	122
Taxation	(49)	(1)
Profit for the year	203	121

Appendix 3

INA Group consolidated balance sheet translated into USD (unaudited)
31 December 2004

			2004 USD millions		2003 USD millions
	ASSETS				
B.	Non-current assets				
	Intangible fixed assets		248		145
	Tangible fixed assets		1,612		1,339
	Investments in associate and joint ventures	27		27	
	Investments in other companies	47		63	
	Total investments		74		90
	Long term receivables		39		39
	Deferred tax		16		10
	Total non-current assets		1,989		1,623
C.	Current assets				
	Inventories		419		409
	Trade receivables, net	352		317	
	Other receivables	33		38	
	Total receivables		385		355
	Investments		58		57
	Cash at bank and in hand		126		55
	Total current assets		988		876
D.	Prepayments and accrued income		28		14
F.	TOTAL ASSETS		3,005		2,513

			2004 USD millions		2003 USD millions
	EQUITY AND LIABILITIES				
A.	Capital and reserves				
	Paid-up share capital		1,693		1,693
	Reserves (including retained losses brought forward)		(229)		(364)
	Profit for the year		226		135
	Translation reserve		90		(16)
	Equity		1,780		1,448
	Minority interests		1		1
	Total capital employed		1,781		1,449
B	Long term provisions		207		158
C.	Non-current liabilities				
	Long term loans	149		184	
	Other non-current liabilities	32		36	
	Total non-current liabilities		181		220
D.	Current liabilities				
	Bank loans and overdrafts	148		153	
	Accounts payable and other short term liabilities	573		464	
	Total current liabilities		721		617
E.	Accruals and deferred income		115		69
	Total liabilities		1,224		1,064
F.	TOTAL EQUITY AND LIABILITIES		3,005		2,513

Appendix 4

INA Matica balance sheet translated into USD (unaudited)
31 December 2004

			2004 USD millions		2003 USD millions
ASSETS					
B.	Non-current assets				
	Intangible fixed assets		246		143
	Tangible fixed assets		1,313		1,067
	Investments in subsidiaries	171		168	
	Investments in associate and joint ventures	10		10	
	Investments in other companies	43		62	
	Total investments		224		240
	Long term receivables		61		61
	Deferred tax		16		10
	Total non-current assets		1,860		1,521
C.	Current assets				
	Inventories		353		358
	Intercompany receivables	68		60	
	Trade receivables	258		228	
	Other receivables	23		35	
	Total receivables		349		323
	Investments		57		51
	Cash at bank and in hand		37		16
	Total current assets		796		748
D.	Prepayments and accrued income		26		24
F.	TOTAL ASSETS		2,682		2,293

			2004 USD millions		2003 USD millions
EQUITY AND LIABILITIES					
A.	Capital and reserves				
	Paid-up share capital		1,693		1,693
	Reserves (including retained losses brought forward)		(162)		(283)
	Profit for the year		203		121
	Translation reserve		(124)		(224)
	Equity		1,610		1,307
B.	Long term provisions		198		150
C.	Non-current liabilities				
	Long term loans	114		131	
	Other non-current liabilities	31		33	
	Total non-current liabilities		145		164
D.	Current liabilities				
	Intercompany payables	181		264	
	Bank loans and overdrafts	104		64	
	Accounts payable and other short term liabilities	346		275	
	Total current liabilities		631		603
E.	Accruals and deferred income		98		69
	Total liabilities		1,072		986
F.	TOTAL EQUITY AND LIABILITIES		2,682		2,293

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