Annual Report 2006

06

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Introduction

INA,d.d. Company Profile

Incorporation

INA-Industrija nafte d.d. Zagreb (INA, d.d.), is a public limited company owned by the Republic of Croatia (51,80%), MOL, Hungarian Oil and Gas Plc. (25% plus one share), the Croatian Homeland War Veterans' Fund (7% of INA's shares). From December 1. 2006 17,0% of INA' s shares are listed on the stock exchange, in London and, Zagreb via the Initial Public Offering, (out of which the majority, is in the hands of small shareholders, 12,51% and Zagrebačka banka and Citibank N.A. are the owners of 3,69 shears).

INA, d.d. was founded on January 1st 1964 when the operations of Naftaplin (oil and gas exploration and production) were merged with those of the refineries in 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 factories and the Kutina fertiliser plant. In 1993. INA became a public limited company (or ''d.d.'').

INA Group

The Group comprises a number of wholly or partially owned subsidiaries or associate companies. The Group's headquarters are located in Zagreb, Avenija Većeslava Holjevca 10, Croatia. On December 31st 2006, the group employed 15 873 personnel. The Group has the leading position in Croatia over oil and gas exploration and production, oil refining and the distribution of gas, oil and oil products.

The principal activities of INA and its subsidiaries are

- Exploration and production of oil and gas in Croatia, Angola and Egypt, concessions in Angola, Egypt, Syria and Namibia;

- Import of natural gas and the sale of imported and domestic natural gas to industrial consumers and gas distributors;

- Refining of crude oil and production of crude oil products through refineries located in Rijeka (Urinj) and Sisak where fuels are produced, and Rijeka (Mlaka) and Zagreb where lubricants are produced;

- Retail of crude oil products and other merchandise through a chain of 407 retail petrol stations owned by INA d.d., 18

petrol stations owned by INA´s subsidiaries throughout Croatia and 47 petrol stations operated by INA d.d. in the neighbouring countries.

- Trading in crude oil and petroleum products

- Service activities incidental to on-shore and off-shore oil extraction through its drilling, workover and other oilfield services provided by subsidiary Crosco- Naftni servisi 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 sale of lubricants carried out by Zagreb Lubricants d.o.o.

- Production and sale of liquefied petroleum gas carried out by Proplin d.o.o.

- Catering and tourism carried out by Hostin d.o.o. Zagreb

- Car and boat rental carried out by ITR d.o.o. Zagreb

- Health protection and safety carried out by Sinaco d.o.o.

Directors and Management

General Assembly

For each INA General Assembly meeting of INA the shareholders appoint their representatives or assignees.

Supervisory Board

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

Management Board

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

TOMISLAV DRAGIČEVIĆ, PRESIDENT OF THE MANAGEMENT BOARD

Dr. sc.Tomislav Dragičević (55), doctor of chemical sciences, was appointed general director of INA in March 2000. From June 2000, following the implementation of the new Articles of Association, he became the president of the Management Board. Prior to his appointment to this post Dr Dragičević was Director of Strategic Planning and R&D Sector, and before that Director of Refining. He joined INA in 1982 and before that he worked in the petrochemical plant in Kutina as a head of processing unit. He graduated from the faculty of Chemical Engineering, University of Zagreb. In 1984 he gained his master's degree and in 1993 his doctor's degree in chemical engineering. Since 1995 he has been a fellow of the Croatian Academy of Science and Art, Section IV - Petrochemistry.

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

Zalán Bács (39) was born in Hungary. In 1990 he graduated from the Chemical Engineering Faculty, Technical University of Budapest. Zalán Bács took his master's degree at the Napier University in Scotland in 1992, and attended MBA - Budapest University of Economic Sciences in 1994. From 1992 till 1995 he was Project Manager at MOL. He also worked as a consultant for Arthur D. Little in London from 1994 till 1995. He became General Manager of MOL Romania in 1996, and from 1997 till 2000 he was Head of Resource Allocation at MOL. From 2000 till 2003 Mr Bács was Chief Controller of the MOL Group. For some period he was Chief Financial Officer of the leading chemical company TVK, a member of the MOL Group. Before the place of Vice President of the INA Managemet Board he was a member of the board and director of Corporate Services function at INA.

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

Mirko Zelić (71) Ph.D., P.E. joined the Management Board of INA from the Mining and Petroleum Faculty, University of Zagreb, where he had been a professor. In 1964 he graduated from the Faculty of Mining, Geology and Petroleum Engineering of Zagreb University (RGN Faculty) where he also earned his doctor's degree in 1982. His working life commenced in 1964 at INA-Naftaplin, where he has been continuously engaged in a number of managerial positions. He has been a full professor at the Faculty of Mining, Geology and Petroleum Engineering. He also lectures in postgraduate studies at the RGN and at the Faculty of Mechanical Engineering and Naval Architecture in Zagreb. He is the author of five books, over forty scientific and professional papers, an array of innovations and one patent in the petroleum field. He has been a full member of the Croatian Academy of Sciences and Arts (HAZU) since 2000.

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

Mr. Josip Petrović (55) graduated from the Faculty of Economics, University of Zagreb and received his master's degree in Marketing in 1992. He joined INA in 2004, first in the position of Executive Director of Retail Services and then in August 2005 he took the position of Executive Director of Refining and Marketing. Before that Mr Petrović was an adviser to the President of the Board of Agrokor Group (from April 2000). His first employment was at Industrogradnja. After internship he was promoted to the position of Head of Market Research and Advertising Department. After that he joined the footwear factory Šimecki where he was Production Manager. He was an Adviser to the General Director of the textile machinery and measuring devices factory for some time, and then he took the position of General Director of Unikonzum, a retail and wholesale chain. He joined Agrokor in 1995, and between 1998 and 2000 he was the Chairman of the Board of the Intercontinental Hotel in Zagreb.

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

Niko Paulinović (60) is member of the INA Management Board and Executive Director of the Retail Division, in charge of the field of work concerned with provision of services to customers through the retail chain of petrol stations in Croatia and in neighbouring countries. He was born in 1947 in Drniš. He graduated from the Faculty of Law, University of Zagreb. Before his appointment to the Management Board he was Director of Retail Network Management Sector and also has years of experience in the retail activities regarding oil products. Within the 1985 - 2001 period, he was engaged in different tasks regarding the management of INA's retail network in leading positions and organisational units as they changed during the restructurisation process. From 1995 till 2000 Niko Paulinović was Director of Zagreb Business Centre within INA Trgovina, the biggest business centre as regards number of customers and quantity of sold products.

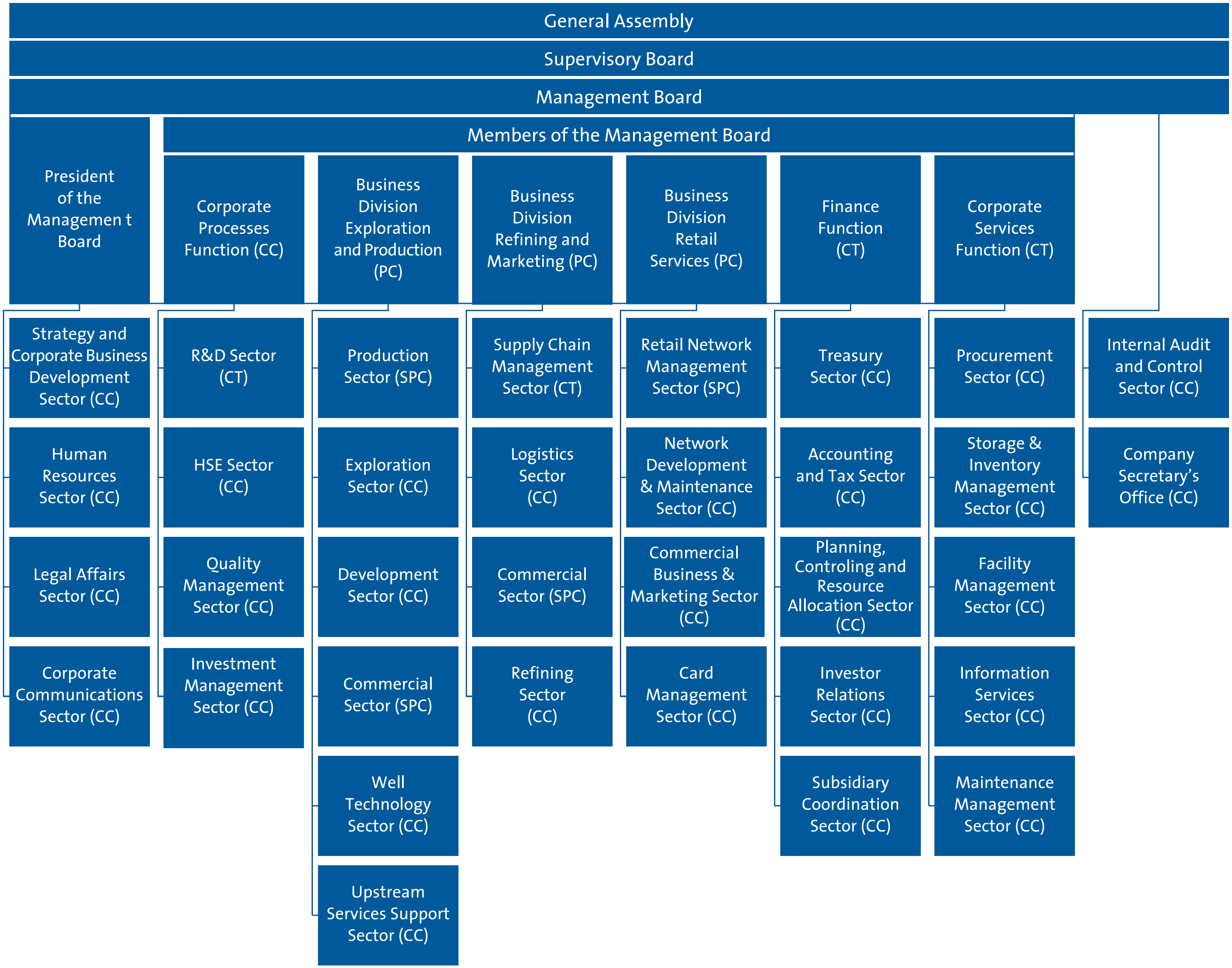
Tomislav Thür, member of the Board and director of Corporate Processes Function

Mr.sc.Tomislav Thür, B.L.L. (40) graduated from the Faculty of Law, University of Zagreb in 1991 and in 1998 he took his mater's degree at the Harvard Law School. Before his appointment to the Board of INA and director of Corporate Processes Function, he was General Secretary of the Atlantic Group. He started his career in the lawyer's office of Odić-Rubčić. From May 1992 till August 2001 he worked at the Croatian Embassies in Bern and Washington and joined the liaison Croatian Office with European Community Observers Mission. He was head of the National Coordinator Office for the Safety Pact. He earned executive management training at the London Business School, Harvard Business School and INSEAD.

Sándor Lendvai, member of the Board and Director of Corporate Services Function

Sándor Lendvai (41) becomes a member of INA Management Board after his employment at the Shell International Petroleum Co.Ltd oil products, where he was in charge of global secondary logistics and business excellence. He was born in Hungary and graduated from the Faculty of Economics, University of Budapest. His first two-year employment was at the Interag Rt. in Budapest. He became member of the Executive Managerial Team and Committee for Shell Hungary Supply Chain. In 1998 he moved to Milan, where he became Business Planning Manager at Shell Europe Oil Products - south cluster. From 2000 till 2004 we was the Regional Manager for the Region of south-eastern Europe and in 2005 he became the Global Secondary Logistics Manager.

INA, d.d. MAKROORGANISATIONAL STRUCTURE SCHEME



Letter by the President of the Management

Dear Shareholders,

The year 2006 was an important year for INA. The initial public offering of 17% of INA's shares was successfully launched in November 2006. The shares were listed on the Zagreb Stock Exchange and the GDRs trading began at the London Stock Exchange. The IPO aroused huge interest by private and institutional investors in Croatia and the offered shares were several times oversubscribed.

INA is committed in meeting the expectations of its shareholders.

Operational targets set for 2006 have been fulfilled. The planned development of the offshore gas fields in the Adriatic has been completed. Natural gas production from these fields increased to 681 Mcm by the end of 2006. INA constructed sea pipeline from the central production platform to the Croatian coast and the Pula terminal from where natural gas produced on the offshore fields is delivered to the Croatian gas system. The Palmyra gas field in Syria was put on stream by the end of 2006 and oil production began on the Jihar 6 well. Exploration activities on the East Yidma field in Egypt were crowned with oil discovery on the Sidi Rahman-1 well.

INA closed the year 2006 with solid financial results. Profit of the Group was HRK 883 million, which is 2 million lower compared to 2005 when the profit was HRK 885, while in dollar terms net profit was 2 million higher and amounted to 151 million USD compared to 149 million USD in 2005. Sale revenues reached a record level of HRK 23,434 million and were 11% higher than in 2005 mainly due to 8% higher average daily production of hydrocarbons and increased crude oil prices. Operating profit decreased by HRK 436 million to HRK 974 million (167 million USD). The decrease was due to capped natural gas prices and lower refining margins on the domestic market caused by regulatory changes introduced in July 2006, which limited maximum prices allowable under the pricing formula. The negative effect was partly offset by the increase in the gains from finance operations in amount HRK 131 million caused by foreign exchange gains related to the strengthening of kuna against USD.

Capital expenditures were high in 2006 and amounted to HRK 3,072 million (526 million USD). Most of the investments were earmarked to the development of the offshore gas fields in the Adriatic and the Jihar and Palmyra fields in Syria, including the refinery modernization project.

Outstanding results in upstream

Apart from the development of the North Adriatic gas fields, which was by far the largest project in 2006, INA continues to pursue development projects onshore Croatia. This is still an area from which majority of oil and gas production is derived, although it is in mature stage. In order to offset the decline in production, INA is pursuing two key initiatives: one is the Međimurje project which is aimed at developing three new natural gas fields (the Vukanovec, Vučkovec and Zebanec) and the other is the EOR project designed to increase the recovery of crude oil at the existing Ivanić, Žutica and Beničanci oil fields.

The exploration phase of the Međimurje project was completed in 2006 and resulted in the discovery of the three gas fields. The studies for the EOR project were completed in 2006 and a pilot EOR project was run on the Ivanić oil field.

Intensive development operations were carried out in Syria. During 2006 another oil well Jihar-6 was put into production and the exploration well Jazal-1 discovered new oil field on the Hayan block. The Palmyra gas field was put into production. By the end of 2006 a new oil field was discovered on the East Yidma block in Egypt where INA is operator and has 50% share.

Refining and Marketing - refinery modernization project on track

In January 2006 INA put on the market Eurograde fuels according to effective Euro IV specification. INA's refineries are currently able to produce approximately 30% of their gasoline and diesel to Eurograde specifaction. In order to address this issue INA is pursuing a modernization project. During 2006 a sulphur recovery unit was ordered for the Sisak refinery and completion is scheduled for August 2007. A number of activities were undertaken in procurement of basic and detailed design for specific plants and procurement of equipment. The modernization program includes the construction of units that are expected to be operational in 2008 and 2009.

The strong market position of INA continues, although in 2006 there was a slight decline in the market share in Croatia. On the other hand INA increased sales on the Bosnia and Herzegovina market and reached total sales of 635 Kt which is 10% higher than previous year.

Retail network with a growing regional presence

In 2006 the total retail sales volumes increased by 5.9%. This was partly due to a good tourist season. The sale of both motor gasoline and diesel increased by 1.7% and 10.8% respectively. The average throughput per site increased by 6.7% to 2,814 tonnes /year.

In early 2006 INA started to work on designing and implementing a new retail strategy with the objective of strengthening the INA brand through further improvement of the retail network. The strategy includes site segmentation and increased number of premier sites and specific approach to other segments of retail sites. It also involves the improved offering of products and services and optimization of on-site and off-site costs.

By the end of 2006 INA operated 425 petrol stations in Croatia, while outside of Croatia INA operates 41 petrol stations in Bosina and Herzegovina and six in Slovenia. In September 2006 INA and MOL consortium (50% INA and 50% MOL) signed a Recapitalization Agreement with the Government of the Federation of Bosnia and Herzegovina and Energopetrol for the acquisition of a 67% interest Energopetrol. Energopetrol engages in the marketing of refined products in the Federation of Bosnia and Herzegovina where it operates 65 petrol stations. The deal was finalized in early 2007 and INA and MOL will take over the operation of Energopetrol's retail network.

Efficiency improvements

Within the scope of the efficiency improvement programme called OptINA, INA has identified potential cost-saving and efficiency opportunities across its business units. The areas in which OptINA program is implemented include procurement, maintenance, reduction of refining losses and own consumption and resolving refinery bottlenecks.

In 2006 INA implemented the SAP integrated information system which Phase 1 went live on 1 November 2006 and Phase 2 in early 2007.

Partnership with MOL

The cost-saving and efficiency project as well as SAP implementation was performed with the support of and expertise provided by MOL. Our cooperation is developing successfully in a number of activities. During the IPO process, the presence of MOL as a partner to INA had significant role, particularly with foreign investors who recognize MOL as a successful company listed on the Budapest, Luxembourg and Warsaw Stock Exchanges (and the DR's traded on the Pink Sheet in the US and London's International Order Book).

Also, MOL has provided us strong support in the challenging refinery modernization project. After acquisition of the stake in Energopetrol, Sarajevo we will work together on upgrading Energopetrol's retail network and expanding the wholesale and retail operations in Bosnia and Herzegovina.

Looking forward to continued strong performance

INA's strategy is to create value for its stakeholders by growing and upgrading its business and continuing to improve the quality of its products and services.

We intend to grow reserves and hydrocarbon production through the completion of the existing development projects and further exploration of existing prospects and the acquisition of new concessions. Recent discoveries in off-shore Adriatic, Syria and Egypt will add to oil and gas production and our revenues. The modernization of the refineries is very important to enable our two fuels refineries to achieve improved overall efficiency and profitability and compliance with current EU environmental standards. The program requires considerable investments which have been ensured. Producing higher value products that meet EU specification will enable INA to meet all the demand for such products in the wholesale and retail markets in Croatia and regional markets. We believe that INA will continue to benefit from the strong expected economic growth and consequent demand growth for refined oils products and natural gas in Croatia and the surrounding region. Such favourable environment and our initiatives and actions in all businesses will boost INA's performance.

I would like to thank our employees and partners who contributed to the results achieved and to our shareholders for their confidence in our company. I look forward to their continued support.

Tomislav Dragičević

Business report



Vision, Mission and Core Values

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

Vision

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

Mission

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

Core Values

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

Benefits for the Owner

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

Partnership with Customers

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

Suppliers

Keeping correct relationship with suppliers.

Respect for Local Community - Recognisable Image

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

Benefits to Employees - Creativity and Uniqueness

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

Health protection, safety and environmental protection

Environmental Protection

Each year, a wide range of projects which are directly or indirectly connected with environmental protection are launched at INA. Their goal is to lower the emission of pollutants into environment near all facilities and plants for production, refining, storage and sale of oil and gas. That ensures better functionality and operational safety of existing plants, more rational use of energy, raw material and materials, production of diesel and petrol with lower content of sulphur and aromatics - all for the purpose of increasing the eco-efficiency of business activity.

Some of the most important projects and activities in 2006:

- In the Rijeka Oil Refinery, the old hydrodesulphurisation plant was reconstructed, the aim of which is to produce fuel with lower sulphur content (50 ppm of sulphur max - Euro IV quality) and reduction of energy products (fuels) consumption, as well as the reduction of flue gas emission from furnace uptake.

- 1,581 tons of oiled waste was processed, which is 23.5% more than last year. 411 tons of that was used in refining processes, which represents 17.3% more than in 2005.

- In the Rijeka Lubricants, the project of efficiently removing acid gases from sulphide waters was completed. An authorised organisation conducted the measuring of emission of pollutants into the air from all furnaces and boilers all emission values were within the limits specified in the Regulation on Border Values of Pollutant Emissions into the Air from Stationary Sources.

- 153.84 tons of waste oil was processed, which is 10.1% more than last year, and 50.37 of used barrels, i.e. 54.9% more than last year, was processed.

- In the Sisak Oil Refinery, as part of the revitalisation of the storage area, tanks with oil products were cleaned and repaired, with the purpose of reducing the evaporation losses and air protection. In the combined plant 4 (KP-4), the old reactor was replaced by a new one, where sulphur is recovered through three layers of catalyst and reduced to 10 ppm. The Refinery was connected on-line to the automatic measuring station Sisak 1 within the national network. A reha bilitation programme for reduction of benzene emission in the Sisak Oil Refinery has been prepared and is implemented. At the end of 2006, all short-terms action for reduction of benzene emissions have been carried out, so that nowadays the value is below border values.

- In September 2006, the construction of the Claus desul phurisation plant commenced. This plant will remove sulphur from refined gas and thus reduce emissions into the air. Start-up is expected in August 2007.

- Tanks for waste motor oils were procured by the Wholesale Sector and allocated to all storages of the Aviation Fuel Department.

- At the Oil and Gas Exploration and Production Division, owing to the application of new technologies and constant supervision of production, the number of pipeline ruptures has been continuously decreasing over the last years. 60% fewer ruptures were recorded in 2006 than in the previous year.

- In the PSP Okoli plant (Oil and Gas Exploration and Production Division), a biological waste water cleaner was installed, and the solidification of solid sludge on plants for managing technological fluids at Stružec and Đeletovci plants was finalised.

- All INA's petrol stations (Retail Network Management Sector) continued collecting the oiled waste, which was then handed over to a company authorised for waste management. IND-EKO Company of Rijeka inspected 41 petrol stations for the purpose of determining their impact on the environment and estimating the costs of environmental obligations.

- In 2006, as part of preparation activities for the next round of privatisation, Golder Associates conducted an independent evaluation of the situation in environmental protection in INA's organisational units and provided an estimate of future investments. From this it was estimated that the costs of harmonisation with European Union regulations and of protection of soil/ underground waters might amount to HRK 170 to 500 million, along with the expenditure that was already planned and included in the refinery modernisation programme and the reconstruction/ adaptation programme relating to petrol stations.

- The sale of leaded petrol was terminated on January 1, 2006, as a result of legal obligations concerning the quality of oil products on the Croatian market, simultaneously marking the commencement of sale of fuels with a lower percentage of sulphur, produced in accordance with Euro IV requirements.

- During 2006, 17 unforeseen events with environmental impact were recorded at INA, which is 47% less than the previous year.

Organisational unit	**Number of unforeseen events**
Oil and Gas Exploration and Production	6
Rijeka Oil Refinery	4
Sisak Oil Refinery	1
Rijeka Lubricants	1
Retail Network Management Sector	3
Crude Oil and Logistics Sector	2
Total	**17**

Table 1. Number of unforeseen events in 2006

Eight out of that number had a minimum, i.e. insignificant impact on the environment, such as for example spillage of small scope at petrol stations. Accidents mostly occur due to sudden pipeline disruptions caused by a worn state, and frequently also by attempts at theft; the other causes are sudden disruptions in the technological process or damage to equipment; these were often causes as well.

In order to make INA'a employees better acquainted with legal obligations regarding the environmental protection, healthcare and safety field, the HSE Sector organised a cycle of monthly lectures, the goal of which is to present and explain new and current legal regulations in the Republic of Croatia and the European Union.

Health protection and safety

INA tends to keep the work environment safe and healthy by systematic care about health of the employees and by constant improvement of working conditions. The activities we conduct to preserve safe work conditions and health of employees are related to the implementation of all legal obligations in the fields of occupational safety and fire protection. Special attention is given to constant education, the training of employees for work in a safe manner, conducting of fire protection drills and high quality communication as the basis for implementing healthcare and occupational safety. Occupational safety is one of the priorities of our company. Not a single work-related illness has been registered over the course of the last 10 years at INA. The number of on-the-job injuries was continuously decreasing up to 2006, when a 3.7 % increase was registered, relating only to minor injuries. There were no lethal or group injuries in 2006. Aiming at efficient fire protection, each year the Management Board of INA passes the Decision on the Special Programme of Activities in May - the Month of Fire Protection. Employees from all organisational units of INA participate in the realisation of various expert and educational lectures and practical drills, including the testing of organisational, technical and expert abilities. As one of the priorities, healthcare is practised through medical examinations, constant medical check-ups of employees working in specific conditions, and by treatment and rehabilitation of employees in the specialised hospital for medical rehabilitation, Naftalan. With an array of expert lectures and measurement of blood pressure - thus paying special attention to the importance of being informed and of prevention where healthcare is concerned - the World Day of Healthcare and Occupational Safety was celebrated in April 2006.

Type of event	Number of unforeseen events
Disruption of technological process	3
Equipment damage	3
Oil line rupture	4
Brine line rupture	2
Pipeline rupture	2
Spilling of product	3
Total	**17**

Table 2. Causes of accidents

Quality Management

Quality management has a long tradition at INA. Business processes related to production and meeting customers' requirements were ISO 9001 certified back in the 1990s. Changes in the business environment, as well as those within the company itself, called for changes in the approach and style of management. INA has worked towards continuous upgrading of its business processes, and the efficiency and quality of its products. Due to the need for an integrated quality management system, the INA Management Board adopted the Resolution on Certification of INA on the corporate level. The audit of the management system was performed by the end of 2005, and in January 2006 INA obtained ISO 9001:2000 for the entire company.

In 2006, the system has been successfully maintained, as was confirmed by two audits performed during the year. Due to the fact that the several different certificates of conformity with ISO 9001:2000 have been replaced by a single certificate, the several different internal audit processes have also been replaced by one single internal audit process. This is an improvement in the performance of audits, since more competent resources are available, and the auditor's independence from the audited area is more easily achieved.

In order to achieve further improvements in this area, a new project was launched with the purpose of providing IT support for managing internal audits. Such support will enable easy and quick access to the results of internal audits, and hence more efficient gathering of data necessary for maintaining and upgrading INA's quality management system.

With the aim of ensuring continuous improvements of INA's products and services, to the satisfaction of all stakeholders - especially our customers - at the end of 2005 INA started to market a higher quality of gasoline and diesel fuels. New standards were issued on the quality of fuels that are in compliance with the EU specification regarding sulphur content (50 ppm), effective by the year 2009. The single leaded type of gasoline was withdrawn from the Croatian market and replaced by unleaded SUPER PLUS 98 on January 1st 2006. At the end of 2006, further reduction of sulphur and lead content in unleaded gasoline SUPER 95 and SUPER 98 was prescribed by new standards.



Intellectual Property Business Unit

INA has set up and continuously maintains and improves the intellectual property management system. With the aim of protecting the created identity of INA, the system ensures the protection and maintenance of patents, trade marks, industrial design and INA's brand on petrol stations and all other sales and service points in the Republic of Croatia, as well as abroad and in markets where INA plans to enter, or where it is already present, in accordance with the strategy on intellectual property management.

In order to exercise full control over its intellectual property rights, INA has defined the activities, authorities and responsibilities required for the effective monitoring of these rights. Once training has been given to all those involved, significant attention will be paid to the effective protection of INA intellectual property rights in order to prevent violations.

The establishment of an overall organized system of intellectual property management for all members of the INA Group has been undertaken. The proposal to establish a centrally managed system has been approved by the Management Board. INA will be the owner of all the different forms of intellectual property rights protection within the INA Group, and the same unit will also be responsible for the submission of all intellectual property rights applications.

The creation of the company knowledge database has enabled access to the knowledge created by our employees. The database currently contains several hundred works and is continuously growing.

INA has always promoted and rewarded inventions. INA's inventors participated at the innovation exhibition, INOVA 2006, and received 5 gold, 1 silver and 1 bronze medal for individual and group innovations, while INA as a company received a special reward for exceptional contribution to the work of the Zagreb Innovations Federation.

Corporate social responsibility

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

For more than 40 years INA has been supplying fuels and other oil products to the consumers and legal entities of Croatia and neighbouring countries. Our production facilities, terminals and retail sites are located in every corner of the country and thus INA is involved in the life of local communities. In many ways INA has contributed to the development of local communities by providing support in financing road construction, water supply and other infrastructural facilities, particularly in the areas where oil and gas exploration and production has been carried out. In the 1980s INA participated in the funding of various construction projects including schools, hospitals, holiday homes for its employees and other activities. This concept was abandoned as INA commenced its restructuring and focusing on its core activities. In the recent years INA has been announcing public invitations for project sponsorships and donations. Funds are granted to original and beneficial projects in the areas of culture, sports, humanitarian work and environmental protection. We have good and stable relations with our suppliers of crude oil, natural gas equipment and other materials, with special emphasis on the Croatian suppliers. INA is one of the largest employers in Croatia. Our goal is to recruit competent and skilful employees and to offer them an opportunity for further career development. Workers' rights and obligations are regulated on the basis of a Collective Agreement, labour regulations and company bylaws. The three trade unions active in INA represent the workers in negotiating Collective Agreement terms with the employer.

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


IVANA-A
IVANA-A

Business activities

Oil and Gas Exploration and Production

1. Exploration activities

In 2006 the majority of exploration and development operations were carried out on concessions abroad, predominantly in Syria and Egypt, although some new exploration projects were also initiated in Croatia. During 2006 another oil discovery followed in Syria on the Jazal field within the Hayan block. On the East Yidma block in Egypt, the Sidi Rahman exploration well, a new oil well was discovered. The offshore exploration in the Adriatic continued. The exploration wells Vesna-1 and Ana-1 were drilled offshore in the North Adriatic. Appraisal of the wells confirmed commercial gas reserves. Both fields have been included in the third development phase of the North Adriatic Project.

SYRIA - Hayan and Aphamia Blocks

Exploration activities in Syria were focused on meeting the obligations from the third exploration phase on the Hayan block, including development and testing of the Khnifes, Jihar-6ST and Jazal-1 wells. It is important to note that after the discovery of oil at the Jihar-2 well, the Jihar-6ST well also struck oil and it was put into production. Late in 2006, the Palmyra gas field was put on stream with Palmyra-1 and Palmyra-3 production wells. Another exploration well, Jazal-1,was drilled on the Hayan block. It was successful as oil was discovered in the C2 Kurrachine dolomite formation. Thus, the new Jazal field has been discovered on the Hayan block.

On the Aphamia block, 504 km of 2D seismic surveys was performed. The first exploration well drilled on the Aphamia block struck gas but it did not prove commercial.

EGYPT - East Yidma, East Kalabsha and Ras El Ush Blocks

On the East Yidma Block in Egypt, where INA is the operator, exploration activities comprised drilling of the two exploration wells in order to fulfil the obligations of the first exploration phase. During drilling of the Drazia-1 exploration well, showing of gas and condensate was detected,at Alam El Bueib sands. Actual reserves will be established by further exploration. The Sidi Rahman-1 well struck oil within the sandy reservoirs of Kharita and Upper Baharya formations. Thus the new Sidi

Rahman oil field was discovered. On the East Kalabsha block, 2D/3D seismic surveying was initiated which is to be continued in 2007, while the activities on the Ras El Ush block were focused on evaluation of the exploration area and preparation of the prospect for exploratory drilling.

NAMIBIA - Zaris Block

Late in 2005, an Exploration Agreement was signed for the new exploration block Zaris in Namibia. The first exploration phase includes 500 km of 2D seismic surveying. During 2006, after two bidding rounds, the agreement was concluded with the Croatian company Geofizika and the commencement of the work is planned for the beginning of 2007.

ANGOLA - Block 3/05A

On the 3/05A block in Angola, where INA participates with a 4% share, we are currently in the first exploration phase with a foreseen duration of three years. Exploration activities include seismic surveys which are to begin in 2007.

CROATIA

NORTH ADRIATIC - Ivana Block (INAgip) and Izabela Block (EDINA)

As regards domestic exploration activities, most were related to the exploration of the North Adriatic on the Ivana and Izabela blocks. A joint venture company of Edison (Italy) and INA, called EDINA, is the operator on Izabela block. During the drilling of the Irena-1 exploration well, a gas reservoir was discovered in the shallow beds of the Ravenna formation. On the Ivana block (operator INAgip), two exploration wells - Ana-1 and Vesna-1 - were drilled at the beginning of 2006 and two new gas fields were discovered.

PANONNIAN BASIN

After several years, one exploration well was drilled in the Pannonian exploration area. The Rakitnica-1 well discovered a gas reservoir, but its production potential was not entirely defined due to technical difficulties. Significant exploration activities were performed in the Međimurje - Peklenica area, where 167 km2 of 3D seismic surveys were performed. New data will considerably reduce exploration risk in finding new gas and condensate reservoirs in the area of the Mura depression.

Within the framework of cooperation between INA and MOL on the Croatian-Hungarian border, the Zalata prospect was defined and late in 2006 the Zalata-1 exploration well was drilled. Geological surveys proved the existence of hydrocarbons, which are to be analysed in early 2007.

CONCLUSION

In 2006, new, commercial hydrocarbon reserves were discovered in Syria on Jazal prospect, within the Hayan Block; in Egypt on the East Yidma Block, Sidi Rahman prospect, and on the Ivana and Izabela blocks in the North Adriatic (Ana, Vesna and Irena gas fields). INA's share in the newly discovered estimated recoverable reserves amounted to 25,097,905 boe. INA exploration projects' CAPEX amounted to USD 67,380 million. The finding cost was accordingly 2.68 $/bbl.

Exploration	HRK million	USD million
Foreign countries	311.07	53.29
Croatia	82.30	14.10
Total	**393.37**	**67.38**

Exploration investments

Investments USD/boe	2005.	2006.	Index
Exploration	2.14	3.08	144
Total	**2.14**	**3.08**	**144**

Exploration investment per BOE in 2006 (USD exchange rate = HRK 5,8378)

Description	Total	Croatia	Foreign countries
A) Exploration activities	67.38	14.10	53.29
Toatal investment	**67.38**	**14.10**	**53.29**

Exploration investment in 2006 (in USD million)

Activity field	Investment in USD million	Increase of reserves in mil BOE	Investment USD/BOE
Total exploration	67.38	25.10	2.68

Reserve discovery costs in 2006



2. Development activities

CROATIA

The most important investment in 2006 was the North Adriatic Project, within which the Ika and Ida gas fields were put into operation. In addition, the sea pipeline linking Ivana K production platform with the onshore terminal near Pula (part of Small Gea Project) was constructed and it was put into operation in autumn 2006. Through this pipeline section the gas from the Adriatic fields is transported to Croatia directly, and not through Italy as was done before.

Three gas wells were drilled on the Katarina gas field: Katarina-1HOR, Katarina-2DIR and Katarina-3DIR. The Katarina gas field was put into operation in late 2006. At the moment, the Adriatic production system includes 13 platforms and 30 wells. Late in 2005, total gas production per day amounted to 2.5 million m3/day, which increased to 4.3 million m3/day in 2006. After the Katarina field was put into operation, the daily production amounted to 4.8 million m3/day, which is a 92% increase over 2005. In 2006 the produced gas volumes were divided in a 50:50% ratio between INA and ENI.

In the Pannonian Basin, two gas wells were drilled:
Molve gas field (Mol-42) and Gola gas field (Gola-9 deep well) and the drilling of Kal -21 gas well on Kalinovac gas field was started.

Development activities abroad

Angola

Block 3/80
The Block 3/80 contract regulated production on the concession with a single remaining offshore oil field in 2006.

As the contract expired in the middle of 2006, this field was included in 3/05 Block's contract.

Block 3/05
This Contract covers the production of six offshore oil fields. INA's share ranges from 4% to 5% depending on the individual contract for each block.

Only minor mining operations were planned at the majority of wells. These activities, together with the construction of a buoy, were postponed for 2007.

Block 3/85
This Contract covers the production from the two offshore oil fields. INA has a 5% share in the production concession. The majority of investments on this concession were allocated to the construction of the sea pipeline that will ensure water supply for the production platform to CoboF1 for enhanced oil recovery by water injection.

Block 3/91
This Contract covers the production from the 1 offshore oil field, in which INA has a 5% share. Funds were allocated for the finalisation of the Oombo-104B well tie-back that was carried out late in 2006, while workover operations on the Oombo-102 (GL) well were postponed for 2007.

EGYPT

Ras Qattara concession - INA's share 25% Capital investments were earmarked to the drilling of 13 new development wells, but two additional wells were drilled, totalling to 15 completed development wells.

West Abu Gharadig concession - INA's share 25% Capital investments were earmarked to the drilling of 5 new development wells.

North Bahariya concession - INA's share 20% Development operations were carried out on 7 wells, including their testing and equipping, fracturing and putting into production.The works also comprised the upgrading of the transportation pipeline and gathering systems.

Intense development activities were carried out during 2006.

A total of 27 development wells were completed on all three concessions. As a result, crude oil production from the three concessions in Egypt increased by around 10% over 2005.

It should also be noted that after the Sidi Rahman-1 well testing, a commercial discovery on Sidi Rahman crude oil field was announced on the East Yidma concession, and the development plan was prepared by INA's branch office in Cairo.

SYRIA

Concession: Hayan Block
INA is the operator with 100% share.

Production fields:

- Jihar (crude oil production)

- Palmyra (crude oil production)

In March 2006 the development plan for the Al Mahr gascondensate field was adopted both by INA's Management Board and by the Syrian Oil Ministry.

In mid December 2006, the Palmyra gas field was put into production by connecting the Palmyra-1 and Palmyra-3 wells to the Arak gas station.

All activities at the Jihar-6 well were completed and it has been in production since 13 July, 2006.

Late in 2006, the drilling of Jihar-7 development well started.

Development	HRK million	USD million
Foreign countries	334.12	57.23
Croatia	577.17	98.87
Total	**911.29**	**156.10**

Development investments

Investments USD/boe	2005	2006	Index 2006/2005
Development	6.32	7.13	113
Total	**6.32**	**7.13**	**113**

Development investments per BOE in 2006 (USD exchange rate = HRK 5,8378)

Description	Total	Croatia	Foreign countries
B) Development activities	156.10	98.87	57.23
Total investment	**156.10**	**98.87**	**57.23**

Development investments in 2006 (in USD million)

Activity field	Investment in USD million	Increase of reserves in mil BOE	Investment USD/BOE
Croatia	98.87	27.43	3.60
Foreign countries	57.23	7.13	8.03
Total	**156.10**	**34.56**	**4.52**

Reserve restoration costs in 2006

	Units	Proven	Proven probable	Proven probable possible	Units	Proven	Proven probable	Proven probable possible
Oil	10^3 m^3	9,993	13,024	16,384	10^3 bbl	62,850	81,914	103,043
Condensate	10^3 m^3	2,591	2,590	2,615	10^3 bbl	16,298	16,290	16,446
Total (oil + condensate)	10^3 m^3	12,585	15,614	18,999	10^3 bbl	79,148	98,204	119,489
Water - dissolved gas	10^6 m^3	2,106	3,830	4,433	10^6 bbl	13,245	24,089	27,882
Free gas - onshore	10^6 m^3	14,048	14,118	14,118	10^6 bbl	88,352	88,794	88,794
Free gas - Adriatic	10^6 m^3	12,400	16,960	24,905	10^6 bbl	77,987	106,666	156,633
Gas total	10^6 m^3	28,554	34,909	43,456	10^6 bbl	179,585	219,550	273,310
OE	10^3 m^3	39,311	48,289	59,674	10^3 boe	247,240	303,703	375,308

Results of domestic reserves estimate as of December 31, 2006

	Units	Proven	Proven probable	Proven probable possible	Units	Proven	Proven probable	Proven probable possible
Oil	10^3 m^3	1.634	2.572	2.597	10^3 bbl	10.278	16.175	16.335
Gas	10^6 m^3	608	7.776	7.776	10^6 bbl	3.823	48.907	48.907
Condensate	10^3 m^3		2.478	2.478	10^3 bbl	0	15.587	15.587
OE	10^3 m^3	2.203	12.329	12.354	10^3 boe	13.857	77.540	77.699

Results of foreign reserves estimate as of December 31, 2006

	Units	Proven	Proven probable	Proven probable possible	Units	Proven	Proven probable	Proven probable possible
Oil	10^3 m^3	11.627	15.596	18.981	10^3 bbl	73.128	98.089	119.378
Gas	10^6 m^3	29.162	42.685	51.233	10^3 bbl	183.408	268.457	322.217
Condensate	10^3 m^3	2.591	5.069	5.093	10^3 bbl	16.298	31.877	32.033
OE	10^3 m^3	41.514	60.618	72.028	10^3 boe	261.096	381.243	453.006

Total

3. Oil and gas production

In 2006 INA produced 1,134,000 tonnes of crude oil and gas condensate, comprising:

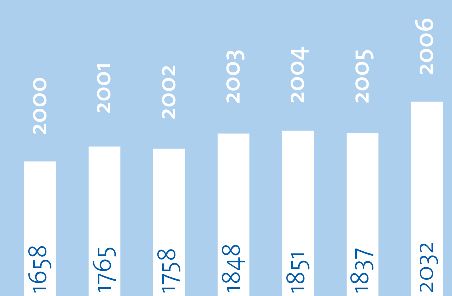
- in Croatia 618,074 tonnes of crude oil and 299,326 tonnes of gas condensate
- in Angola 82,875 tonnes of crude oil
- in Egypt 102, 579 tonnes of crude oil
- in Syria 30,907 tonnes of crude oil

In Croatia, crude oil is produced from 711 production wells on 36 fields. On 15 fields crude oil is recovered by natural flow and it accounts for 11% of the produced crude, while the remaining wells introduced aritificial lift of which 39% was gas lift and 50% pumping. In addition to crude oil and gas condensate, 2.8 million m3 of water was extracted from the reservoirs. The ground water was extracted, treated and reinjected into reservoirs, or used for injection into the wells to enhance oil recovery. A total of 2.03 billion m3 of natural gas was produced, of which 66.5% was in the Pannonian Basin. Gas production from the Adriatic offshore fields increased considerably. In 2006, INA's share of offshore production amounted to 681 million m3, of which 224 million m3 came from the new fields that were put into production in 2006. In March and April Ika and Ida fields were put into operation, while testing of the Katarina field started in December on the Aiza Laura exploitation area.

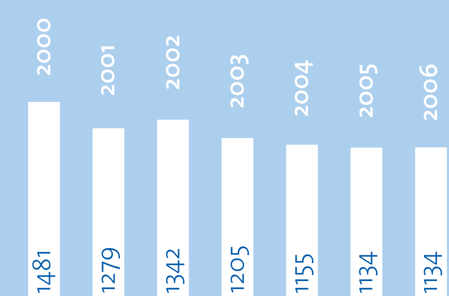
Development operations in the Pannonian basin included Kozarice oil field (Kz-40), Molve field (Mol-42) and Gola field (Go-9). These wells were put into production in 2006 and they produced 1,570 m3 of crude oil, 2,900 m3 of gas condensate and 42 million m3 of natural gas.

In Syria, Jihar-6 well was put into production in mid July, while gas production started in December on two wells of Palmyra gas field. Okoli underground gas storage was working in XVIII and XIX production cycle and XIX injection cycle, during which 329,620,140 m3 of gas was produced and 411,504,647 m3 of gas was injected. To achieve planned production levels on the matured fields, 1,300 workover operations of various kinds were carried out during the year. The operations included 34 capital workover operations including hydraulic fracturing and gravel pack, 299 regular workover operations and 26 well equipment overhauls. For this purpose INA invested more than HRK 140 million. The implementation of workover operations resulted in increased production of crude oil by 15,500 m3, gas production by 32.5 million m3 and gas condensate production by 2,500 m3. In addition, reconstruction and upgrading of gathering systems and optimisation of processing plants was performed during the year. As the part of safety and environmental protection programme the section of Stružec - Sisak pipeline was replaced. Regular annual overhaul was performed on the Molve gas treatment plant and the Ethane plant at Ivanić- Grad. Improved energy efficiency was achieved by installation of a new turbo generator TEA-4 which ensures additional 4 MW power capacity on the GTP Molve.

The Ethane Plant at Ivanić Grad produced 102,380 t of LPG and virgin naphtha and 63,568 t of ethane.



Natural gas (million m^3)



Oil and condensate production (000 tonnes)

In accordance with consumers' needs, INA produced 0.4 million m3 of geothermal water and 2.2 million of m3 of fresh water. In 2006, HRK 127 million was invested in fixed assets for processing/treatment facilities, enviromental projects and equipment.

During 2006 INA completed the feasibility studies for the development of the Međimurje gas fields and for the EOR project (Enhanced Oil Recovery) on the Žutica and Ivanić gas fields. The studies were approved by the Managenent Board and commencement of these projects is expected in the near future.

4. Natural gas supply and sales

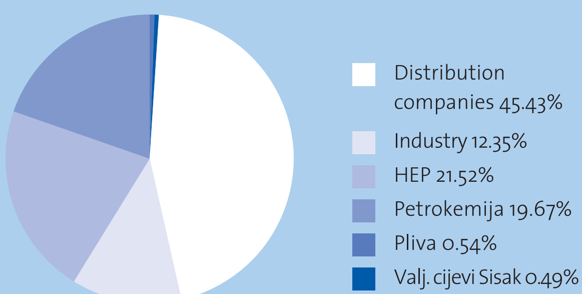
Natural gas sales

In 2006 INA sold 2.7 billion m3 of natural gas to eligible and tariff customers.

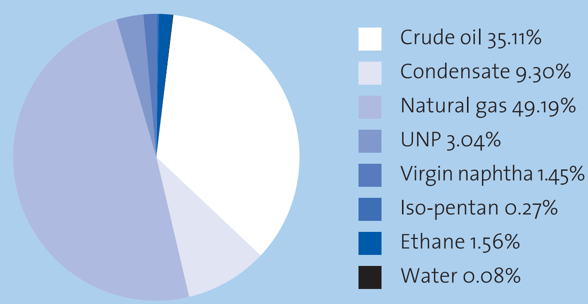
During the year, INA continued the activities for increasing the natural gas price for tariff customers; however, a new tariff system has not been implemented. In 2006, E&P Division generated gas sales revenue amounting to HRK 3 billion, which accounted for 49% of the total sales revenues of this Division. Total sales revenue of E&P Division amounted to HRK 6.1 billion, which is 16% higher than the previous year.

Natural gas supply

Production of natural gas from domestic reserves (onshore and offshore) currently covers approximately 64% of the total demand for natural gas in Croatia; the rest is imported from Russia. In 2006, INA imported 1.1 billion m3 of gas from Russia. By year end direct connection of the North Adriatic production fields with the Croatian transportation system was established via the Pula terminal, which enabled the delivery of additional natural gas volumes to the Croatian market. To secure sufficient quantities of gas for the domestic market, INA negotiated the renewal of existing contracts for natural gas sales and repurchase with Eni S.p.A. Italy, (to ensure transportation via Italy and Slovenia). Activities with INA's strategic partner MOL continue in various fields, such as construction of a new supply route for the import of natural gas through Hungary and construction of the LNG terminal in Croatia.



Natural gas volumes sold according to category of customers in 2006



Basic product's revenue in 2006



Refining and Marketing

In 2006, the Refining and Marketing business segment recorded solid results. The production was lower than in 2005 as a result of a decrease in the processed quantities due to the planned annual overhaul at Rijeka Refinery and investment activities in both refineries. Last year was marked by high prices of crude oil and refined products. The average price of crude oil increased by 15% in comparison with the average prices in 2005. The prices of oil products were also higher (15% over 2005). The higher efficiency on all levels - from crude oil purchase, to production and sales - was partially offset by the unfavourable external market influence and the price regulation introduced by the majority shareholder, and resulted in an operating profit of HRK 87.1 million in 2006.

The total processed quantity of INA's refineries in 2006 was 4.9 million tonnes: imported and domestic crude oil accounted for 4.6 million tonnes, while the remaining portion was atmospheric residue and semi-finished products. In comparison with 2005, the refineries in Rijeka and Sisak processed 19 tonnes less domestic and 200 thousand tonnes less imported crude oil. Domestic crude oil accounted for 17% of the total production, while the majority of imported crude was Russian REB (accounting for 71.2% of the total production), supplied from the Mediterranean. In 2006, the Rijeka Refinery processed 2.698 million tonnes of imported crude oil. For the supply of Mlaka Lubricant plant 85.5 thousand tonnes of atmospheric residue was imported and 38,883 tonnes of vacuum gas oil was supplied from the Rijeka refinery.

The Sisak refinery processed a total of 836,000 tonnes of domestic and 1.101 million tonnes of imported crude oil. The annual overhaul at the Rijeka Refinery lasted for 45 days. The FCC unit was idle for over three months due to reactor replacement. The Sisak refinery overhaul was the result of investment project activities and revamps. The aforementioned shutdowns had a one-off effect of decreasing the processed volumes and production output for 2006.

Several laws and regulations introduced in 2006 had an adverse effect on INA's overall results.

	2001	2002	2003	2004	2005	2006
Domestic oil	923	1,059	973	935	855	836
Imported oil	3,909	3,771	3,895	4,145	3,999	3,799
Atmospheric residue and semi-finished products	152	418	597	426	320	265
Total feedstock	4,984	5,248	5,465	5,506	5,174	4,900

Processed volumes in kilotonnes

	2002	2003	2004	2005	2006
LPG	293	304	298	290	266
Virgin naphta	169	170	212	177	170
Motor gasoline	1,209	1,261	1,226	1,168	1,047
Gas oils	1,814	1,949	1,964	1,603	1,565
Fuel oil	798	772	753	906	847
Coke	55	39	42	33	52
Bitumen	188	213	217	181	216
Motor oils	14	12	12	11	11
Base oils	48	35	33	36	25
Paraffin	9	8	9	7	7
Other	9	8	19	132	99
Semi-finished products	33	66	88	26	36
Total products	4,639	4,837	4,873	4,570	4,341
Internal consumption and losses	609	628	633	604	559
Total	5,248	5,465	5,506	5,174	4,900

Refined product output in 2006 (in kilotonnes)

The new Crude Oil and Crude Oil Derivatives' Market Act, adopted on 1 June 2006, announced the establishment of the Agency for Mandatory Reserves. According to this Act, INA and other market participants have to pay a fee to fund the activities of the Agency for mandatory reserves.

The Rule book on the domestic product pricing formula was also changed: the fee component for mandatory reserves (which INA could previously factor into the fuel product prices) was abolished and the custom tariff was halved, both of which had a negative effect on the company's business.

The decrease in crude oil prices during the summer period and the inability to formulate the refined product prices freely had an additional adverse effect on the results of INA.

Sales

During 2006, a total of 2.877 million tonnes of products were sold on the domestic market, which is a decrease of 133,000 tonnes in comparison with 2005.

The sale of gasoline and gas oils on the domestic market declined. Sales of heating oils decreased, due to lower requirements of INA's large customer HEP; while the sale of bitumen increased.

To cover the domestic market requirements for Euro quality products - 149,502 tonnes of Eurosuper 95 - 281,173 tonnes of Eurodiesel and 27,661 tonnes of jet fuel were imported.

Despite the lower production volumes and increased import volumes, INA achieved stable results.

INA's share in domestic sales decreased by 3%, while export increased by 10% over 2005.

In 2006, only a year after the EU requirement, INA refineries produced EU IV quality products of 50 ppm sulphur content: Eurosuper 95 and Eurodiesel.

Technological upgrading of the Sisak refinery was implemented during the December 2006 turnaround to increase production of Euro grade gasoline (Eurosuper 95). In addition, the Rijeka refinery increased production of Euro IV diesel fuel, also as a result of technological improvements.

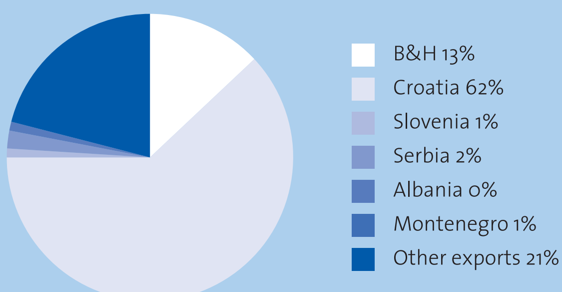
A major refinery modernisation project will increase the volume of Euro quality gasoline and diesel production and will also contribute to significant improvements in environmental protection through lower emissions into air, soil and water. The construction of the sulphur recovery unit in the Sisak refinery is scheduled for completion in August 2007. It will decrease SO2, benzene and other emissions from the Sisak refinery.

The Rijeka refinery tank farm was reconstructed and upgraded. The reconstruction of the sewage system is underway. In addition, monitoring equipment was installed for measurement of harmful gas emissions near large burners so as to ensure continuus monitoring of emissions.

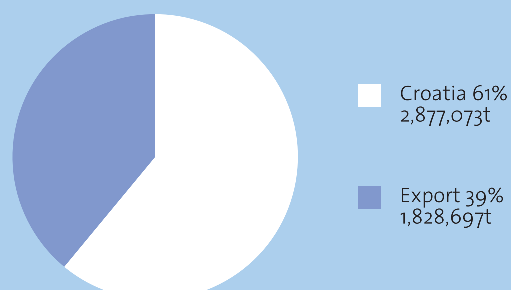
The level of safety and health protection was enhanced by the installation of appropriate control systems.

During 2006 significant organizational changes were introduced in the Refining & Marketing Division with the purpose of improving efficiency and increasing profitability from the operations.

The role of Supply Chain Management was expanded to include coordination between the Refining and Marketing and other organisational units participating in crude oil supply, processing, sale and transport of oil products. Supply Chain Management also has a clearly defined task of strategic planning aimed at achieving the long-term goals of the Refining & Marketing Division and operational planning optimisation.



Wholesale markets in 2006



Domestic and export sales in 2006

The Commercial- and Logistics sector

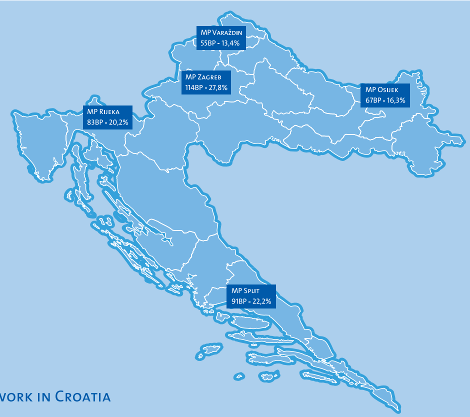
Divisions were streamlined as a result of the new organization and will now focus on the processes of refined products' sale and distribution, in order to satisfy the needs of INA's customers. After 9 years, the lubricant plant Maziva Rijeka was reintegrated into the Rijeka Refinery, and together with the Sisak Refinery they constitute INA's refining business.

Retail

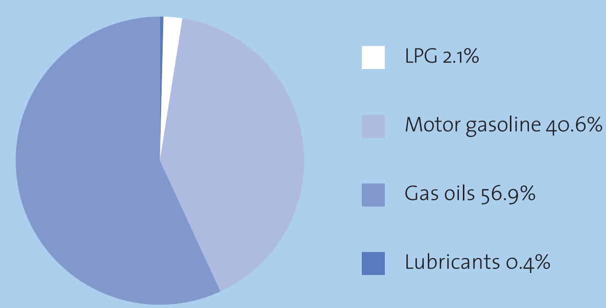
The Retail Division manages the network of petrol stations in Croatia, Slovenia, and Bosnia and Herzegovina. Put into numbers that is 425 petrol stations in Croatia (407 stations are owned by INA and 18 stations are owned by its subsidiaries), 6 in Slovenia and 41 in Bosnia and Herzegovina. The network may be increased by a number of petrol stations which are currently subject toproperty restitution proceedings. Some of them are in Bosnia and Herzegovina, and the others in Serbia and Montenegro.

During 2006, the retail network in Croatia was organised into 6 retail regions comprising 17 retail units which coordinated the work of the 425 petrol stations (as at 31 December 2006). During 2006, the total sales of refined products on the Croatian market amounted to 1.15 million tonnes. Sales increased by 5.9 % up on last year's results.

Fuel sales (gasoline and gas oils) accounted for 98% of the total sales, whereas the share of non-fuel products was 2%. As a result of change in the car fleet structure, there was an



Retail network in Croatia



Retail sales volume by product group

increase in the sales of European quality fuels. Petrol stations offered more than 2,500 different consumer goods. In 2006, their sales accounted for HRK 533.7 million (without VAT), which was a 9.97% increase on 2005. The margin on consumer goods was 10.14% higher than last year. The offer was expanded by some additional products and services and by some new, innovative services such as “coffee-to-go”. An additional step forward was the pilot project Impulse zone management and category and space management projects which demonstrate that INA’s petrol stations are following the business trends.

In 2006 two new petrol stations were built and put into operation: Bačva-North and Bačva-South at the western section of the newly constructed “Istrian Y” highway by the Poreč junction. The petrol station Slavonski Brod-Osječka street underwent capital reconstruction and it was reopened in November 2006. A new visual identity was applied on both the new and reconstructed petrol stations. All petrol stations have modern shops selling consumer goods and auto-bars.

Investment activities continue to bring further technological and safety improvement at petrol stations (information technology, video surveillance, alarm systems, safes, etc.)

Special emphasis is put on environmental issues and responsible behaviour towards nature.

The Card business sector accounted for 47% of the total retail revenues. A project was launched which enabled toll payment by INA card on domestic highways (managed by Hrvatske autoceste and Autocesta Rijeka-Zagreb).

The strategic goal of the Retail Division is to strengthen the INA brand by an aggressive upgrading of the retail network, through relationships with both partners and the general public, primarily focusing on the buyer. This will be achieved through the improvement of the existing services (e.g.a wider range of products) and introduction of new services (e.g. car wash facilities and cafés).

INA’s Retail Division is facing several challenges in its business: on the one hand, the retail network is rather diverse in terms of shop size, offer, level of service and location; on the other hand, the business efficiency shows further potentials for growth. That is why the Retail Division decided to launch the project for retail network strategy implementation.

Corporate Services

Information services sector

For Information services sector 2006 was the year of great changes, mainly because of implementation of the integrated SAP system. Along with regular activities, the Information services sector was involved in the preparations for future SAP system support. The backbone of the support is SAP Competence Centre, an organisational unit that will provide assistance to users and perform maintenance works and continuous upgrading of the SAP system implementation.

During 2006 the Information service sector introduced other improvements to the INA information system by implementing new applications (e.g. support for production monitoring in oil refineries, travel management etc.) and by further improvement of the petrol stations' information system. Further improvements were also made in IT infrastructure, standardisation of IT operations and in information security.

Besides supporting INA's IT systems, the Information services sector in 2006 extended its support to Maziva-Zagreb d.o.o. and operations in Syria.

Procurement sector

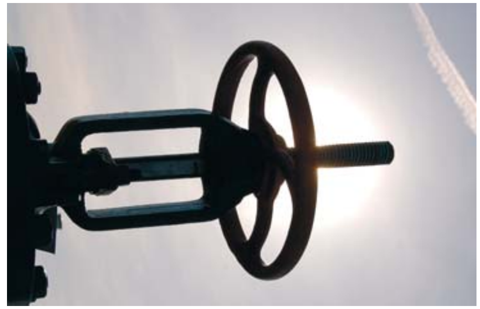
The Procurement sector successfully conducted a cost rationalisation programme in 2006. The average duration of the contract was decreased to 90 days. The contracted prices also showed a positive movement, they decreased and had an additional improving effect on cost savings.

Storage & inventory management sector

The main achievements of the Storage & inventory management sector in 2006 were the following:

- A new optimal non-HC warehouse network with 11 warehouse locations has been set up across Croatian territory and these are the only locations at which INA's non-HC inventories are stored. These 11 warehouse locations are set in the SAP system and defined as the "Plants".

- The effect achieved was a 10% reduction of the non-HC inventory levels at company level; large quantities of excessive stocks were scrapped, disposed of or sold - thus removed from the storage locations.


- The establishment of the integrated business operation system and implementation of a single integrated IT system set clear guidelines ("Procedure for determining and managing of non-HC strategic stocks") for the proper way of managing stocks as a strategic category and ensured uninterrupted and safe functioning of all INA's major processes at company level.

Maintenance management sector

One of the most important activities of the Maintenance management sector in 2006 was the turnaround in the Rijeka Refinery which was successfully finished on time and within planned budget. It was based on the new approach to turnarounds advised by the maintenance management sector in accordance with the best practice.

Facility management sector

In 2006 the Facility management sector continued the rationalisation programmes and the work on outsourcing facility management activities. Among the crucial rationalisation programmes and projects, there were continuous take-over activities of non-core assets, a pilot project of Service Level Agreement (SLA) in facilities operations management, the office computerisation project, and the rationalisation of company car usage on the corporate level.

Strategic partnership

Strategic partnership with MOL

Strategic partnership

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

Joint Upstream activities

In 2006 INA and MOL continued the work in upstream activities. In cross-border field operations along the Croatian-Hungarian border INA and MOL started a joint natural gas exploration programme in Podravska Slatina and Zalata areas. The experts of both INA and MOL are optimising the technology and the know how in order to bring the fields into development.

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

INA is also considering the construction of a new natural gas import route through Hungary via which it will be able to import natural gas from diversified sources.

Support in the Refinery Modernisation programme

Another key area of the current cooperation between INA and MOL include the development and implementation of a full modernization program at both of INA's refineries. The comprehensive refinery modernisation project has as its objective to rank INA among the most technically advanced refiners in the region by expanding the refining capacity and reaching EURO V quality standards of oil products which are expected to become effective in 2009. In this USD 1,000 - 1,100 million project INA benefits from MOL's experience in modernizing its own refineries.

Regional retail network development

The mutual acceptance of branded fuel cards at both INA and MOL petrol stations continued to prove well in 2006.

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

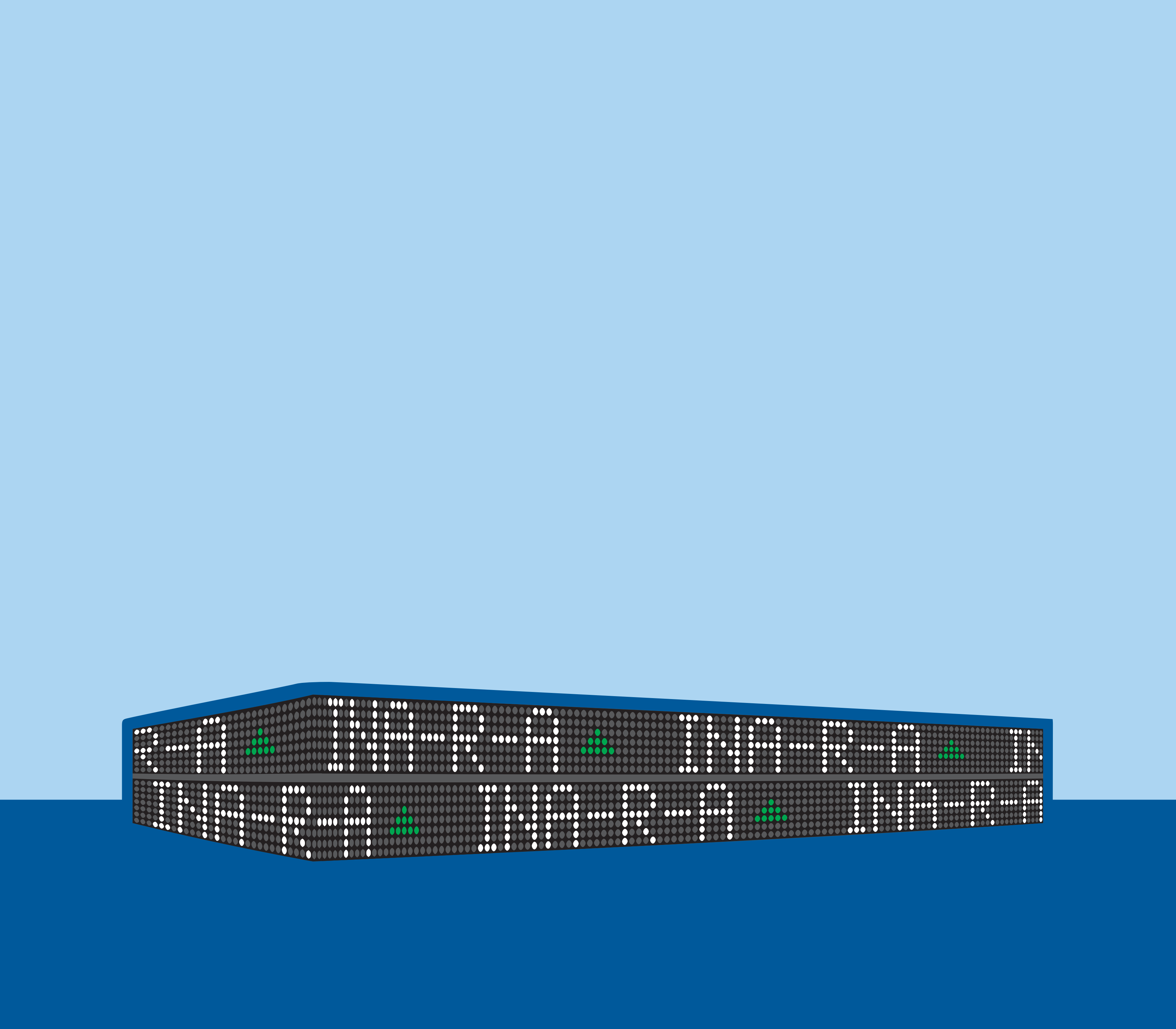
Other areas of cooperation

Further development of partnership relations are intended to 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.

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 coordination of market activities, the exchange of knowledge and the implementation of joint projects are intended to assist INA in the realisation of our growth targets in regional oil, natural gas and refined product markets. In addition MOL supports INA in establishing organizational best practices in a variety of areas, including procurement, supply chain management, insurance and health, safety and the environment ("HSE").

Broadening the cooperation: Energopetrol acquisition

In September 2006. MOL/INA consortium (50% INA and 50% MOL) signed a Recapitalization Agreement with the Government of the Federation of Bosnia and Herzegovina and Energopetrol for the acquisition of a 67% interest in Energopetrol. The Bosnian company is a market leader on its domestic market and owns 65 petrol stations in Bosnia.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Financial results

Financial business results

Changes in accounting policies

The Company and the Group have adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 January 2006.

Adoption of new and revised Standards and Interpretations has resulted in changes of the Company's and Group's accounting policies in certain areas, but has not affected the amounts reported for the current or prior years.

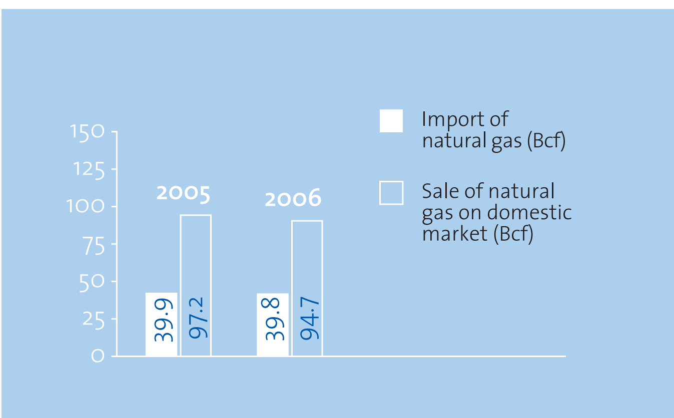
INA Group - financial data	**2005**		**2006**		**% changes**	
(MSFI)	**HRK mil**	**USD mil**	**HRK mil**	**USD mil**	**HRK**	**USD**
Net turnover	21,070	3,541	23,434	4,013	11	13
EBITDA	2,966	499	2,474	424	(17)	(15)
Operating profit	1,410	237	974	167	(31)	(30)
Net financial profit (loss)	(337)	(56)	131	22	-	-
Net profit attributable to owner of capital	885	149	883	151	(0)	2
Net cash from business activities	1,249	210	1,429	245	14	17

2006 Financial Highlights

Key financial indicators for 2006

INA Group net sales revenues increased by 11%, reaching the record level of HRK 23,434 million.

Operating profit decreased by HRK 436 million, to HRK 974 million (USD 167 million) in 2006. The decrease was mainly due to relatively low margins and the unfavourable product slate of the refineries. The negative effect was partially offset by the increase in the financial results from HRK 337 million loss in 2005 to a gain of HRK 131 million in 2006, resulting from foreign exchange gains related to the strengthening of kuna against the US dollar.



Net income of the Group for year 2006 reached HRK 883 million.

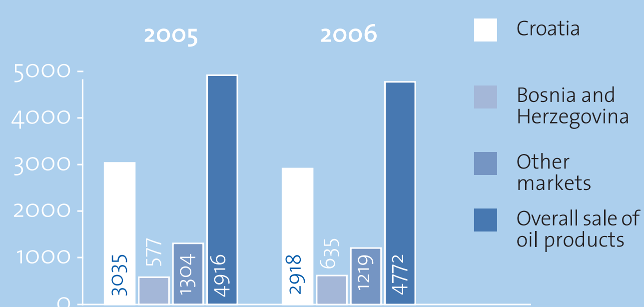
INA Group Operating Cash Flow before changes in working capital decreased by 12% to HRK 2,398 million. The changes in working capital mainly resulted from changes in inventories and changes in trade receivables. Other payables decreased net cash flow from operating activities by HRK 969 million. Increased capital expenditures were financed by new indebtedness of HRK 1,502 million. INA Group Capital expenditures reached HRK 3,072 million (USD 526 million) in 2006. The increase was mainly due to capital expenditures of Upstream projects (putting into development the North Adriatic and Syrian projects) and start up of the refinery modernisation programme.

Exploration and production

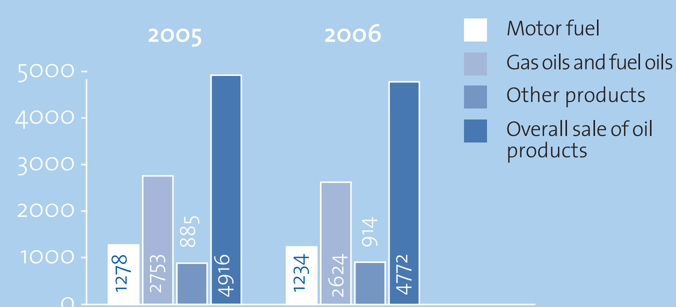
In 2006 operating profit increased by HRK 61 million reaching HRK 1,623 million (USD 278 million). The increase was mainly due to an 8% increase in the average daily hydrocarbon production and higher crude oil price. The positive effect was partially offset by the loss on the sales of imported natural gas and weakening of the US dollar against the kuna.

Refining and marketing

The Refining & Marketing segment contributed to the result of INA Group with an operating profit of HRK 170 million, which is a decrease of HRK 229 million in comparison with 2005. The positive effect of the 17% increase on the average crack spreads in 2006 was offset by the unfavourable impacts of; the change in the pricing formula regulating domestic refined product prices and the interference of the majority shareholder capping the motor fuel prices during the summer period, resulting in a total loss of HRK 430 million.



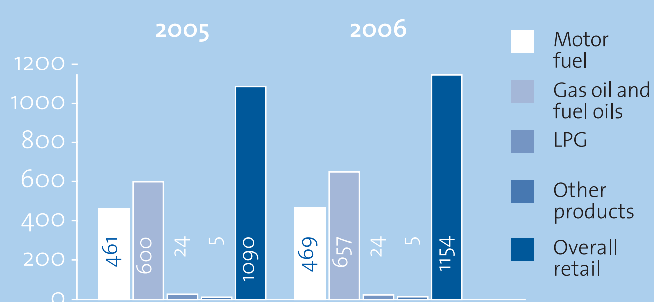
Sale of refinery products (000 t)



Sale of refinery products (000 t)

Retail

The average throughput per site increased by 6.7% to 2,814 tones in 2006. In spite of the 13% increase in sales revenue, the operating profit of the Retail segment decreased by HRK 32 million and resulted in HRK 33 million (USD 5 million) for year 2006. The decrease is partially due to the lower retail margins and capping of motor fuel prices on the domestic market.



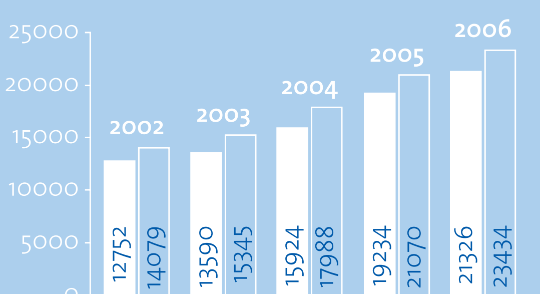
Retail of oil products (000 t)

Corporate and other

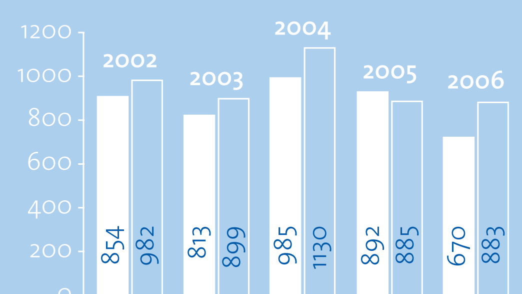
SAP integrated information system was successfully implemented. Segment's operating loss amounted to HRK 852 million (USD 146 million). The loss increased by HRK 236 million year-on-year, primarily resulting from a decrease in sales revenues of maintenance services provided to other segments.

Overview of the environment

Financial result of INA, d.d. was influenced by the following:
In Croatia, the year-on-year growth of GDP not only continued, but also accelerated in 2006, as the result of stronger investment dynamics, increased private consumption and increased state spending. CPI inflation slightly decreased from 3.3% in 2005 to 3.2% in 2006, mostly due to weather-driven food prices increase offset by decreasing fuel costs. Trade deficit has been increased primarily due to strong domestic demand and consumption supported by spreading credit availability. There is a continuing growth in refined product demand where a



Turnover INA d.d./INA group (in HRK million)



Net profit INA d.d./INA group (in HRK million) slight decline in demand for motor gasolines was offset by a significant rise in diesel fuel demand.

Crude oil prices reached an all-time record of over USD 78/bbl in early August 2006. As of September, the slowing growth in demand (in US economy particularly), the release of 60 million bbl of oil inventories by IEA (International Energy Agency) and warm weather brought oil prices to the level below USD 60/bbl, roughly 20% down on the record level. Impact on price decrease came also from additional crude supply from recovered crude production after hurricanes and new capacities, primarily from the Caspian region.

The average FOB MED quoted price of BRENT increased by 19% in USD terms, compared to 2005. The quoted crack spread in 2006 shows an improvement compared to 2005 (from 33.4 USD/Mt to 39.5 USD/Mt). According to Platt's quotations, Premium unleaded gasoline 150 ppm spread grew by remarkable 20.6 % (from 97.8 USD/Mt in 2005 to 117.8 USD/Mt in 2006), negative fuel oil of 3.5% spread increased by 11.4 % (from -190.5 USD/Mt in 2005 to -212.3 USD/Mt in 2006) and Gasoil EN590 350 PPM spread decreased by 4.6% (from 112.7 USD/Mt in 2005 to 107.5 USD/Mt in 2006).

The USD depreciated by an average of 1.9% against the HRK (11% depreciation as at 31 December 2006 compared to 31 December 2005), while the EUR slightly depreciated by an average of 0.3% against the HRK in 2006. The year-end EUR exchange rate remained almost unchanged (from HRK 7.38 in 2005 to HRK 7.35 in 2006).

Cash flow

Operating cash flow in 2006 was HRK 1,429 million, which is a 14% increase on the 2005 figure. Operating cash flow before changes in working capital decreased by 12% due to the decrease in the operating profit for 2006. The increase of working capital decreased the funds by HRK 969 million, resulting from the change in receivables and trade payables of HRK 487 million and HRK 314 million respectively, as well as a decrease in inventories of HRK 484 million. Corporate taxes amounted to HRK 505 million, mainly due to lower profit of INA, d.d.

Net cash outflow for investing activities was HRK 3,025 million in comparison with the net cash of HRK 1,980 million spent in 2005. The increase in investments had an increasing effect on corporate net indebtedness by HRK 1,502 million.

	2006	2005
Business activities	1,429	1,249
Investment activities	(3,025)	(1,980)
Financial activities	1,819	354
Net growth/fall of cash	223	(377)

INA Group cash flow (in HRK million)

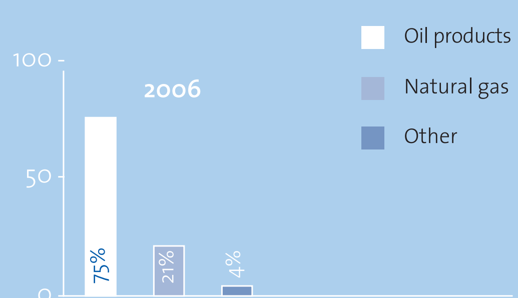
Balance sheet

As at 31 December 2006, total INA Group assets amounted to HRK 22.2 billion, 9% increase in comparison with the previous year-end. Non-current tangible and intangible assets increased by 11%. Intangible assets increased significantly due to higher investments in exploration of Egypt and Croatian fields in Međimurje, Panon and North Adriatic, while Property, Plant and Equipment increased as the result of investments in development operations in Syria and Egypt, and the retail network modernisation.

Inventories decreased by 18% to HRK 2,8 billion mainly as a result of projects which reduced the level of inventories and decreased volumes of refined products.

Net trade receivables increased by 10% to HRK 2.5 billion due to higher refined product prices.

Other receivables increased by HRK 458 million to HRK 0.7 billion, as the result of increase in prepaid tax.



Domestic sales structure for 2006

As at 31 December 2006, INA Group total liabilities increased by 10% (to the total of HRK 9.4 billion). The increase of liabilities is the result of increased long-term and short-term loans of HRK 3.9 billion, in comparison with HRK 2.2 billion in the same period last year. The loans were mainly spent on investments and for decreasing accounts payable, mostly crude oil payables. Accounts payable were reduced to HRK 2.8 billion (at 31 December 2005 they had amounted to HRK 3.2 billion). Long-term provisions amounted to HRK 1.2 billion, compared to HRK 1.8 billion at last year-end. These effects mainly resulted from decreasing the calculated provisions for decommissioning costs (HRK 399 million) and the reversal of provision for tax liabilities in the amount of HRK 193 million.

Total net debt of INA Group amounted to HRK 3.3 billion in comparison with HRK 1.8 billion at the end of 2005 while net gearing (net debt to net debt plus shareholders' equity including minority interest) increased from 13.3% to 20.5% at the end of 2006.

Income statement of INA d.d.

In 2006 total sales revenues of INA d.d. increased by 11% in comparison with 2005 amounting to HRK 21,326 million (USD 3,654 million). Domestic sales increased mainly reflecting the effect of higher average sales prices of 6% (in the total of HRK 867 million), which makes 67% of total sales.

Export sales revenues amounted to 6,974 million (USD 1,195 million) which is an increase of 21% in comparison with the same period last year, mostly due to the increase in both sales prices and export volumes.

Total operating expenses increased by HRK 2,602 million (or 14%) amounting to HRK 21,099 million in comparison with 2005.

Costs of raw materials and consumables increased by HRK 967 million, totalling HRK 11,332 million. Higher cost of refined crude oil (19% higher average import price and refining volumes lower by 200 kt) was offset by lower consumption of raw materials (by HRK 158 million).

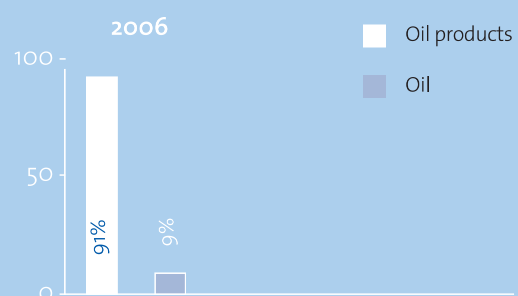
Cost of goods for resale increased by HRK 790 million to HRK 3,903 million, mostly due to higher costs of imported crude oil products during the refineries' overhaul, higher costs of imported natural gas and increase in both purchase price and costs of other goods for resale.

Asset-related costs and provisions as well as those related to changes in inventories increased by HRK 330 million, within which depreciation decreased by HRK 33 million and other costs increased by HRK 363 million mostly due to adjusted value of inventories.

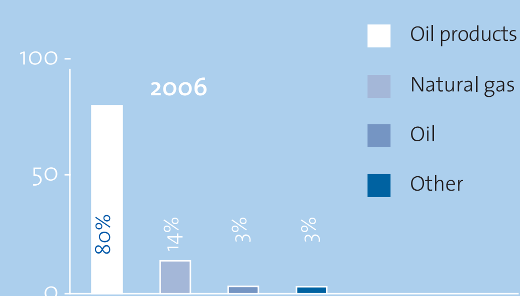
Other operating expenses increased by HRK 514 million, of which non-material costs increased by HRK 400 million (due to increased costs and taxes related to increased production of crude oil and gas). Other material costs increased by HRK 78 million and staff costs increased by HRK 36 million.

Profit from financial activities in 2006 amounted to HRK 98 million (in comparison with the net financial loss of HRK 25 million in 2005). The increase was primarily due to net foreign exchange gains of HRK 289 million, offset by HRK 249 million net interest payable (comparative figures for 2005 were HRK 131 million foreign exchange loss and HRK 146 million interest payable).

One off income from dividends of the subsidiaries in 2005 was HRK 254 million (no dividends were received in 2006).



Export structure for 2006



Total sales structure for 2006

	2006	2005
Key financial data		
Total turnover (HRK millions)	23,434	21,070
EBITDA (HRK millions)	2,474	2,966
Operating profit (HRK millions)	974	1,410
Profit before taxation (HRK millions)	1,105	1,146
Net profit (HRK millions)	883	885
Net cash from operating activities (HRK millions)	1,429	1,249
Total CAPEX (HRK millions)	3,072	2,132
Return on equity (ROE) %	6.9	7.5
Return on capital employed (ROCE) %	6.1	10.4
Key operating data		
Net proven reserves		
- Croatia - onshore(MMboe)	174.3	15.3
- Croatia - offshore (MMboe)	73.0	84.0
- Syria (MMboe)	4.3	1.0
- Africa (MMboe)	9.5	5.7
Total hydrocarbons (MMboe)	261.1	245.1
Avrage daily production		
- Oil (Mboe/per day)	16.9	16.8
- Natural gas condensate (Mboe/per day)	8.5	7.4
- Natural gas (Mboe/per day)	32.8	29.6
Total (Mboe/per day)	58.2	53.8
Number of petrol stations		
- Croatia	425	427
- region*	47	47
Total number of petrol stations	472	474

Key financial indicators - INA Group
*excluding inaccessible stations


INA

Financial report

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INA - INDUSTRIJA NAFTE, d.d. Zagreb and INA GRUPA

Financial Statements for the year ended 31 December 2006
together with independent auditors' report

Responsibility for the Financial Statements

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

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

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

- suitable accounting policies are selected and then applied consistently;

- judgements and estimates are reasonable and prudent;

- applicable accounting standards are followed, subject to any material departures disclosed and explained in the financial statements; and

- the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

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

Signed on behalf of the Group:

Tomislav Dragičević, ScD,
President of the Management Board
INA - Industrija Nafte d.d. Zagreb
Avenija Većeslava Holjevca 10
10000 Zagreb
Republic of Croatia
20 March 2007

Independent Auditors Report

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

We have audited the accompanying unconsolidated and consolidated financial statements of INA - Industrija Nafte d.d. Zagreb ("the Company") and its subsidiaries ("the Group"), set out on pages 4 to 103, which comprise the unconsolidated and consolidated balance sheets as at 31 December 2006, and the unconsolidated and consolidated income statements, unconsolidated and consolidated statements of changes in equity and unconsolidated and consolidated cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company and the Group as of 31 December 2006, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte d.o.o.

Branislav Vrtačnik, Certified Auditor

Zagreb, Republic of Croatia
21 March 2007

INA Group Consolidated Income Statement

For the year ended 31 December 2006 (all amounts in HRK millions)

	Notes	2006	2005
Sales revenue			
a) domestic		14,797	13,690
b) exports		8,637	7,380
Total sales revenue	**3**	**23,434**	**21,070**
Income from own consumption of products and services		767	636
Other operating income		606	554
Total operating income		**24,807**	**22,260**
Changes in inventories of finished products and work in progress		116	508
Cost of raw materials and consumables		(12,146)	(11,024)
Depreciation and amortisation	4	(964)	(993)
Other material costs		(2,386)	(2,206)
Service costs		(1,459)	(1,008)
Staff costs	5	(2,385)	(2,257)
Cost of other goods sold		(4,073)	(3,307)
Impairment and charges (net)		(500)	(475)
Provision for charges and risks (net)		(36)	(88)
Operating expenses		**(23,833)**	**(20,850)**
Profit from operations		**974**	**1,410**
Share of profits of associates	13	-	73

	Notes	2006	2005
Finance revenue	6	620	181
Finance costs	7	(489)	(518)
Net profit/(loss) from financial activities		**131**	**(337)**
Profit before tax		**1,105**	**1,146**
Current taxes	8	(274)	(236)
Deferred taxes	8	53	(25)
Profit for the year		**884**	**885**
Attributable to:			
Equity holders of the parent		883	885
Minority interest		1	-
		884	885
Earnings per share (in HRK)	**9**	**88.3**	**88.5**

Signed on behalf of the Group on 20 March 2007 by:

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

Tomislav Dragičević
President of the Management Board

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

INA Matica Unconsolidated Income Statement

For the year ended 31 December 2006 (all amounts in HRK millions)

	Notes	2006	2005
Sales revenue			
a) domestic		14,352	13,485
b) exports		6,974	5,749
Total sales revenue	**3**	**21,326**	**19,234**
Income from own consumption of products and services		26	29
Other operating income		493	373
Total operating income		**21,845**	**19,636**
Changes in inventories of finished products and work in progress		117	510
Cost of raw materials and consumables		(11,332)	(10,364)
Depreciation and amortisation	4	(763)	(797)
Other material costs		(1,945)	(1,867)
Service costs		(1,277)	(877)
Staff costs	5	(1,519)	(1,484)
Cost of other goods sold		(3,903)	(3,112)
Impairment and charges (net)		(471)	(441)
Provision for charges and risks (net)		(6)	(64)
Operating expenses		**(21,099)**	**(18,496)**
Profit from operations		**746**	**1,140**

	Notes	2006	2005
Finance revenue	6	508	378
Finance costs	7	(410)	(403)
Net profit/(loss) from financial activities		**98**	**(25)**
Profit before tax		**844**	**1,115**
Current taxes	8	(225)	(198)
Deferred taxes	8	51	(25)
Profit for the year		**670**	**892**
Earnings per share (in HRK)		**67.0**	**89.2**

Signed on behalf of the Company on 20 March 2007 by:

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

Tomislav Dragičević
President of the Management Board

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

INA Group Consolidated Balance Sheet

At 31 December 2006. (all amounts in HRK millions)

Assets	Notes	2006	2005
Non-current assets			
Intangible assets	10	685	551
Property, plant and equipment	11	13,312	12,009
Investments in associates and joint ventures	13	57	58
Investments in other companies	14	48	54
Long-term receivables	15	181	204
Derivative financial instruments	38	251	25
Deferred tax	8	129	92
Available-for-sale assets	16	436	256
Total non - current assets		**15,099**	**13,449**
Current assets			
Inventories	17	2,838	3,442
Trade receivables, net	18	2,532	2,304
Other receivables	19	720	262
Derivative financial instruments	38	77	64
Other current assets	20	53	57
Prepaid expenses and accrued income	21	239	341
Cash and cash equivalents	22	630	376
Total current assets		**7,089**	**6,846**
TOTAL ASSETS		**22,188**	**20,295**

Signed on behalf of the Company on 20 March 2007 by:

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

Tomislav Dragičević
President of the Management Board

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

INA Group Consolidated Balance Sheet

At 31 December 2006. (all amounts in HRK millions)

Equity and liabilities	Bilješka	2006.	2005.
Capital and reserves			
Share capital	30	9,000	9,000
Revaluation reserve		66	(96)
Other reserves	31	2,347	2,390
Retained earnings	32	1,366	483
Equity attributable to equity holders of the parent		**12,779**	**11,777**
Minority interest	33	7	6
Total equity		**12,786**	**11,783**
Non - current liabilities			
Long-term loans	26	1,425	748
Other non-current liabilities	27	153	162
Employee benefit obligation	29	72	71
Provisions	28	1,186	1,759
Total non - current liabilities		**2,836**	**2,740**
Current liabilities			
Bank loans and overdrafts	23	1,935	958
Current portion of long-term loans	23	578	476
Trade payables	24	2,900	3,239
Taxes and contributions	24	549	592
Other current liabilities	24	264	184
Accruals and deferred income	25	157	167
Employee benefit obligation	29	8	7
Provisions	28	175	149
Total current liabilities		**6,566**	**5,772**
TOTAL LIABILITIES		**9,402**	**8,512**
TOTAL EQUITY AND LIABILITIES		**22,188**	**20,295**

Signed on behalf of the Company on 20 March 2007 by:

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

Tomislav Dragičević
President of the Management Board

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

INA Matica Unconsolidated Balance Sheet

At 31 December 2006. (all amounts in HRK millions)

Assets	Bilješka	2006.	2005.
Non-current assets			
Intangible assets	10	678	538
Property, plant and equipment	11	11,465	10,318
Investment in subsidiaries	12	978	964
Investments in associates and joint ventures	13	57	58
Investments in other companies	14	42	47
Long-term receivables	15	339	344
Derivative financial instruments	38	251	225
Deferred tax	8	125	91
Available-for-sale assets	16	436	256
Total non - current assets		**14,371**	**12,841**
Current assets			
Inventories	17	2,367	3,035
Intercompany receivables		571	501
Trade receivables, net	18	1,722	1,604
Other receivables	19	667	194
Derivative financial instruments	38	77	64
Other current assets	20	84	40
Prepaid expenses and accrued income	21	208	310
Cash and cash equivalents	22	226	148
Total current assets		**5,922**	**5,896**
TOTAL ASSETS		**20,293**	**18,737**

Signed on behalf of the Company on 20 March 2007 by:

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

Tomislav Dragičević
President of the Management Board

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

INA Matica Unconsolidated Balance Sheet

At 31 December 2006. (all amounts in HRK millions)

Equity and liabilities	Bilješka	2006.	2005.
Capital and reserves			
Share capital	30	9,000	9,000
Revaluation reserve		66	(96)
Other reserves	31	1,952	1,952
Retained earnings	32	551	(119)
Total equity		**11,569**	**10,737**
Non - current liabilities			
Long term loans	26	1,372	606
Other non-current liabilities	27	153	162
Employee benefit obligation	29	48	48
Provisions	28	1,122	1,679
Total non - current liabilities		**2,695**	**2,495**
Current liabilities			
Bank loans and overdrafts	23	159	153
Current portion of long-term loans	23	506	366
Intercompany payables		2,541	2,708
Trade payables	24	1,935	1,412
Taxes and contributions	24	479	500
Other current liabilities	24	146	112
Accruals and deferred income	25	115	115
Employee benefit obligation	29	5	5
Provisions	28	143	134
Total current liabilities		**6,029**	**5,505**
Total liabilities		**8,724**	**8,000**
TOTAL EQUITY AND LIABILITIES		**20,293**	**18,737**

Signed on behalf of the Company on 20 March 2007 by:

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

Tomislav Dragičević
President of the Management Board

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

INA Group Consolidated Statement of Changes in Equity

For the year ended 31 December 2006 (all amounts in HRK millions)

	Share capital	Other reserves	Revaluation reserves	Retained earnings (Accumulated deficit)	Attributable to equity holders of the parent	Minority interest	Total
Balance at 31 December 2004 (restated)	**9,000**	**2,349**	**(141)**	**(446)**	**10,762**	**6**	**10,768**
Adoption of revised International Financial Reporting Standards	-	-	-	44	44	-	44
Balance at 1 January 2005 (revised)	**9,000**	**2,349**	**(141)**	**(402)**	**10,806**	**6**	**10,812**
Gains on available-for-sale investments	-	-	45	-	45	-	45
Exchange differences on translation of the financial statements of foreign operations	-	41	-	-	41	-	41
Net income recognised directly in equity	-	41	45	-	86	-	86
Profit for the year	-	-	-	885	885	-	885
Total recognized income and expense	-	41	45	885	971		971
Balance at 31 December 2005	**9,000**	**2,390**	**(96)**	**483**	**11,777**	**6**	**11,783**

INA Group Consolidated Statement of Changes in Equity

For the year ended 31 December 2006 (all amounts in HRK millions)

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

Signed on behalf of the Company on 20 March 2007 by:

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

Tomislav Dragičević
President of the Management Board

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

INA Matica Unconsolidated Statement of Changes in Equity

For the year ended 31 December 2006 (all amounts in HRK millions)

	Share capital	Other reserves	Revaluation reserves	Retained earnings (Accumulated deficit)	Attributable to equity holders of the parent	Total
Balance at 31 December 2004 (restated)	**9,000**	**1,952**	**(141)**	**(1,011)**	**9,800**	**9,800**
Gains on available-for-sale investments	-	-	45	-	45	45
Net income recognised directly in equity	-	-	45	-	45	45
Profit for the year	-	-	-	892	892	892
Total recognized income and expense	-	-	45	892	937	937
Balance at 31 December 2005	**9,000**	**1,952**	**(96)**	**(119)**	**10,737**	**10,737**
Gains on available-for-sale investments	-	-	162	-	162	162
Net income recognised directly in equity	-	-	162	-	162	162
Profit for the year	-	-	-	670	670	670
Total recognized income and expense	-	-	162	670	832	832
Balance at 31 December 2006	**9,000**	**1,952**	**66**	**551**	**11,569**	**11,569**

Signed on behalf of the Company on 20 March 2007 by:

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

Tomislav Dragičević
President of the Management Board

The accompanying notes form an integral part of this unconsolidated statement of changes in equity.

INA Group Consolidated Cash Flow Statement

For the year ended 31 December 2006 (all amounts in HRK millions)

	Notes	2006	2005
Profit for the year		**884**	**885**
Adjustments for:			
Depreciation and amortisation		964	993
Income tax expense recognized in profit		221	261
Impairment charges (net)		500	475
Gain on sale of property, plant and equipment		(9)	(9)
Foreign exchange (gain)/loss		(186)	42
Interest expense (net)		116	147
Other finance (income)/loss recognized in profit		(42)	7
Change in provision for charges and risks and other non-cash items		(50)	(61)
		2,398	**2,740**
Movements in working capital			
Decrease\(increase) in inventories		484	(1,280)
Increase in receivables and prepayments		(487)	(631)
Increase/(decrease) in trade and other payables		(314)	981
Decrease in provisions		(147)	(21)
Cash generated from operations		**1,934**	**1,789**
Taxes paid		(505)	(540)
Net cash inflow from operating activities		**1,429**	**1,249**
Cash flows used in investing activities			
Payments for property, plant and equipment		(2,679)	(1,879)
Payments for intangible assets		(393)	(329)
Proceeds from sale of non-current assets		20	9
Payments for investments in associates and joint ventures and other companies		(2)	(20)
Dividends received from companies classified under available for sale and other companies		3	5
Proceeds from sale of investments (Crosco Noble Drilling)		-	222
Interest received		-	3
Investments and loans to third parties, net		26	9
Net cash used for investing activities		**(3,025)**	**(1,980)**

INA Group Consolidated Cash Flow Statement

For the year ended 31 December 2006 (all amounts in HRK millions)

	Notes	2006	2005
Cash flows from financing activities			
Additional long-term borrowings		1,375	322
Repayment of long-term borrowings		(428)	(457)
Net drawdown of short-term borrowings		986	612
Interest paid on long-term loans		(87)	(48)
Other long-term liabilities, net		(9)	(16)
Interest paid on short-term loans and other financing charges		(18)	(59)
Net cash from financing activities		**1,819**	**354**
Net increase/(decrease) in cash and cash equivalents		**223**	**(377)**
At 1 January		376	714
Effect of foreign exchange rate changes		31	39
At 31 December	**22**	**630**	**376**

Signed on behalf of the Company on 20 March 2007 by:

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

Tomislav Dragičević
President of the Management Board

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

INA Matica Unconsolidated Cash Flow Statement

For the year ended 31 December 2006 (all amounts in HRK millions)

	Notes	2006	2005
Profit for the year		**670**	**892**
Adjustments for:			
Depreciation and amortisation		763	797
Income tax expense recognized in profit		174	223
Impairment charges (net)		471	441
Gain on sale of property plant and equipment		(12)	(11)
Foreign exchange (gain)/loss		(279)	139
Interest expense (net)		126	145
Other finance income recognized in profit		(42)	(259)
Change in provision for charges and risks and other non-cash items		(42)	(110)
		1,829	2,257
Movements in working capital			
Decrease/(increase) in inventories		554	(1,207)
Increase in receivables and prepayments		(531)	(481)
Increase in trade and other payables		571	1,774
(Decrease)/increase in provisions		(147)	36
Cash generated from operations		**2,276**	**2,379**
Taxes paid		(472)	(519)
Net cash inflow from operating activities		**1,804**	**1,860**
Cash flows used in investing activities			
Payment for property, plant and equipment		(2,331)	(1,680)
Payment for intangible assets		(390)	(324)
Proceeds from sale of non-current assets		20	11
Payment for investments in subsidiaries, associates and joint ventures and other companies		(23)	(21)
Dividends received from companies classified under available for sale and other companies		3	254
Interest received		2	3
Investments and loans to third parties, net		6	(23)
Net cash used in investing activities		**(2,713)**	**(1,780)**

INA Matica Unconsolidated Cash Flow Statement

For the year ended 31 December 2006 (all amounts in HRK millions)

	Notes	2006	2005
Cash flows from/(used in) financing activities			
Additional long-term borrowings		1,375	289
Repayment of long-term borrowings		(324)	(355)
Net drawdown /(repayment) of short term-borrowings		6	(45)
Interest paid on long-term loans		(75)	(35)
Other long-term liabilities, net		(10)	(13)
Interest paid on short term loans and other financing charges		(16)	(17)
Net cash from/(used in) financing activities		**956**	**(176)**
Net increase/(decrease) in cash and cash equivalents		**47**	**(96)**
At 1 January		148	207
Effect of foreign exchange rate changes		31	37
At 31 December	**22**	**226**	**148**

Signed on behalf of the Company on 20 March 2007 by:

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

Tomislav Dragičević
President of the Management Board

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

Notes to the financial statements

For the year ended 31 December 2006 (all amounts in HRK millions)

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 (Official Gazette 42/90 and the 61/91 supplement), INA became a state-owned enterprise.

In 1993 INA became a share based company (or "d.d.") pursuant to a Decree published in the Official Gazette No. 60/93. Effective 31 December 1996, the Company signed a financial restructuring agreement with the Deposit Insurance and Bank Rehabilitation Agency of the Croatian Government, whereby INA divested the majority of its interests in petrochemicals, fertilisers, tourism and banking in consideration for the assumption by the Agency of certain long-term debt and interest liabilities. Effective 11 March 2002, the Croatian Government acquired the Company's subsidiary, Plinacro d.o.o., together with a 21.37 % interest in JANAF d.d., the company which owns and operates the Adria pipeline system, in consideration for assuming US$ 172 million (HRK 1,438 million) of the company's long-term debt with the London and Paris Clubs.

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

The sequence and progress of individual privatisation stages are determined by decisions of the Croatian Government, agreed to by the Croatian Parliament (Official Gazette Nos. 47/02, 77/04, 66/05).

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.

1. General (continued)

History and incorporation (continued)

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

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

The invitation to international tender for the selection of the financial advisor to the Government in the process was released after that, with the consortium Merrill Lynch - Raiffeisen Bank selected as the advisor. The contract between the Croatian Government and the Consortium was signed in January 2006. The primary purpose of the engagement was to propose to the Croatian Government the most favourable model for continuing the privatisation of INA.

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

The shares became publicly traded on 1 December 2006.

The ownership structure of the INA Group as of 31 December 2006:

Number of shares		Ownership in %
Government of the Republic of Croatia	5,180,367	51.80
MOL	2,500,001	25.00
Croatian Homeland War Veterans Fund	700,0007.00	
Zagrebaāka banka d.d.(treasurer)/Citibank N.A. (GDR depositor)	368,725	3.69
Small shareholders (less than 2 % individually)	1,250,907	12.51
	10,000,000	**100**

1. General (continued)

History and incorporation (continued)

Included in the total number of shares held by the Croatian Government are 80,368 supplementary shares with priority given to Croatian citizens, provided that they do not dispose of the shares within one year from their acquisition through an initial public offering.

Principal activities

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

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

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

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

- distribution of fuels and associated products through a chain of some 472 retail outlets in operation as of 31 December 2006 (of which 425 in Croatia and 47 outside Croatia);

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

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

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

The headquarters of the Group are located in Zagreb, Avenija V. Holjevca 10, Croatia. As at 31 December 2006 there were 15,873 persons employed at the Group (15,989 at 31 December 2005). As at 31 December 2006 there were 10,183 persons employed at the Ina Matica (10,290 at 31 December 2005).

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

1. General (continued)

Directors and management

Supervisory Board

until 2nd May 2005

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

since 2 nd May 2005

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

Management Board

until 31 January 2005

Tomislav Dragičević, ScD	President of the Board
László Geszti	Vice-president of the Board - Executive Director Finance Function
Prof. Mirko Zelić, ScD	Member of the Board - Executive Director Business Segment Exploration and Production
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
Tomislav Thür	Member of the Board - Director Corporate Processes Function
Béla Cseh	Member of the Board - Director Corporate Services Function

from 1 February to 31 July 2005

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

from 1 August 2005, with changed competencies

Tomislav Dragičević,ScD	President of the Board
László Geszti	Vice-president of the Board - Executive Director Finance Function
Prof. Mirko Zelić, ScD	Member of the Board - Executive Director Business Segment Exploration and Production
Josip Petrović	Member of the Board - Executive Director Business Segment Refining and Wholesale

1. General (continued)

Directors and management (continued)

from 1 August 2005, with changed competencies

Ivan Brusić	Member of the Board - Executive Director Business Segment Retail Services
Tomislav Thür	Member of the Board - Director Corporate Processes Function
Zalán Bács	Member of the Board - Director Corporate Services Function
Darko Markotić,	BLL Secretary of INA d.d. in 2005

Supervisory Board

until 5th June 2006

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

since 6th June 2006

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

Management Board

until 4th May 2006

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

from 5th May 2006

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

2. Accounting policies

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

Presentation of the financial statements

These consolidated financial statements are prepared on the consistent presentation and classification basis. When the presentation or classification of items in the consolidated financial statements is amended, comparative amounts are reclassified unless the reclassification is impracticable. In 2006 the presentation of the cash flow statement has been amended to provide more relevant information to the users of these financial statements.

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 cost convention, modified by the revaluation of certain assets and liabilities under conditions of hyperinflation in the period to 1993, and in accordance with International Financial Reporting Standards as published by the International Accounting Standards Board, and the Croatian law.

Adoption of new and revised International Financial Reporting Standards

In the current year, the Company and the Group have adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 January 2006:

IFRS 6 Exploration for and Evaluation of Mineral Resources (effective date annual periods beginning on or after 1 January 2006)

IFRIC 4 Determining whether an Arrangement contains a Lease (effective date annual periods beginning on or after 1 January 2006)

IFRIC 5 Right to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective date annual periods beginning on or after 1 January 2006)

IFRIC 6 Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment (effective date annual periods beginning on or after 1 December 2005)

2. Accounting policies (continued)

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

The adoption of new and revised Standards and Interpretations has resulted in changes to the Company's and Group's accounting policies in the above areas, but have not significantly affected the amounts reported for the current or prior years.

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

IFRS 7 Financial Instruments: Disclosures (effective date annual periods beginning on or after 1 January 2007)

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

IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies (effective date annual periods beginning on or after 1 March 2006)

IFRIC 8 Scope of IFRS 2 (effective date annual periods beginning on or after 1 May 2006)

IFRIC 9 Reassessment of Embedded Derivatives (effective date annual periods beginning on or after 1 June 2006)

IFRIC 10 Interim Financial Reporting and Impairment (effective date annual periods beginning on or after 1 November 2006)

IFRIC 11 IFRS 2: Group and treasury share transactions (effective date annual periods beginning on or after 1 March 2007)

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

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

Basis of Company unconsolidated financial statements (INA Matica)

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

Since 1 November 2006, following the implementation of a vertically integrated business management system (SAP), all accounting records are maintain on the level of INA Matica. The IT support has been designed to facilitate the collection of segment information in accordance with the requirements of IAS 14 Ð Segment Reporting.

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

2. Accounting policies (continued)

Basis of consolidated financial statements (INA Group)

The consolidated financial statements incorporate the financial statements of INA d.d. (INA Matica or the Company) and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

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

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

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

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

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

2. Accounting policies (continued)

Business combinations (continued)

The Group had no acquisitions during the 2006 and 2005 accounting periods.

Investments in associates

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

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are not recognised, unless the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss. Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Interests in joint ventures

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

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

2. Accounting policies (continued)

Interests in joint ventures (continued)

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities. The Group reports its interests in jointly controlled entities using proportionate consolidation, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. The Group's share of the assets, liabilities, income and expenses of jointly controlled entities are combined with the equivalent items in the consolidated financial statements on a line-by-line basis.

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

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

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

Goodwill

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

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

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

2. Accounting policies (continued)

Oil and gas properties

Exploration and appraisal costs

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

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

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

Fields under development

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

Depreciation

Capitalised exploration and development costs of producing domestic and foreign 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.

Commercial reserves

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

Reporting currency

The Company's and the Group's financial statements are prepared in Croatian kuna (HRK). The effective exchange rate of the Croatian currency (Kuna) at 31 December 2006 was 7.34 kunas per 1 Euro and 5.58 kunas per 1 United States dollar (31 December 2005 - 7.38 kunas per 1 Euro and 6.23 Kunas per 1 United States dollar).

Property, plant and equipment

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

2. Accounting policies (continued)

Property, plant and equipment (continued)

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

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

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

Expenditures incurred after property, plant and equipment have been put into operation, such as repairs and maintenance and overhaul costs, daily checks and inspections in case of fault, cleaning, changing oil, putting the spare parts to their original places and similar other costs of checking 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. Costs eligible for capitalization include costs of periodic, planned significant inspections and overhauls necessary for further operation.

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

Impairment of tangible and intangible assets

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

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

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

2. Accounting policies (continued)

Property, plant and equipment (continued)

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

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

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

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

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

Finance and operating leases

The Company and the Group have no financial lease arrangements. No significant new operating lease agreements were entered into during 2006 and 2005. The Company and the Group recognise leases payable under operating leases on a straight-line basis over the term of the relevant lease, unless there is another systematic basis that would be more representative of the time pattern of the user's benefit.

2. Accounting policies (continued)

Debtors and prepayments

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

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

Inventories

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

- Crude oil is valued at the lower of production or purchase cost (as applicable) and net realisable value based on year-end Platts prices.

- Finished products are valued at the lower of cost or 95% of estimated average sales price, which approximates the net recoverable amount.

- Semi-finished products and work in progress are valued at the lower of estimated cost of production and net realisable value based on the selling prices of INA d.d. (by reference to Platts prices) reduced by a commensurate percentage, based on the extent of completion of processing, of estimated average refining and production margins.

- Imported natural gas held in underground storage is valued at the lower of cost, based on the price of imported gas at year-end including transport costs, and weighted average sales price based on year-end prices.

- Domestic natural gas held in underground storage is valued at the lower of weighted average sales price and cost.

- Other inventories, which comprise mainly spare parts, materials and supplies, are valued at the lower of cost or valuation and net realisable value, less any provision for slow-moving and obsolete items.

Cash and cash equivalents

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

Borrowing costs

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

2. Accounting policies (continued)

Foreign currencies

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

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

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

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

2. Accounting policies (continued)

Retirement Benefit and Jubilee Costs

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

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

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

Taxation

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

Current tax

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

Deferred tax

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

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

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

2. Accounting policies (continued)

Taxation (continued)

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

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

Current and deferred tax for the period

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

Financial assets

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

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

Effective interest method

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

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

2. Accounting policies (continued)

Financial assets (continued)

AFS financial assets

Listed shares held by the Company and Group that are traded in an active market are classified as being AFS and are stated at fair value. Fair value is determined in the manner described in Note 38. Gains and losses arising from changes in fair value are recognised directly in equity in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in profit or loss for the period.

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

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

Loans and receivables

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

Impairment of financial assets

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

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

2. Accounting policies (continued)

Financial assets (continued)

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

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

Investments

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

Financial liabilities

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

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

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

Embeded derivatives

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

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

2. Accounting policies (continued)

Embeded derivatives (continued)

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

In 2006 the foreign currency embedded derivatives arising on the long term contracts signed with Slovenian party has been derecognized as since 1 January 2007 Slovenia introduced EURO as its functional currency.

Segmental disclosures

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

Provisions for decommissioning and other obligations

Provisions are recognized 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 recognized as a financial expense and the carrying amount of the provision increases in each year to reflect the passage of time.

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

Provisions for restructuring costs are recognized when the Group has a detailed formal plan for the restructuring that has been communicated to parties concerned.

2. Accounting policies (continued)

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

Revenue recognition

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Company and the amount of the revenue can be measured reliably. Sales are recognized, 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 recognized on the basis of gas delivered calculated at the prices in force at the time when the sale was made.

Interest is recognized on an accrual basis.

Dividends due are recognized when the shareholder's right to receive payment is established.

Changes in the fair value of derivatives not qualifying for hedge accounting are reflected in income for the period in which the change occurs.

3. Sales revenue

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

	INA Group		INA Matica	
	2006	**2005**	**2006**	**2005**
Exploration and production	4,247	4,240	4,282	3,688
Refining and wholesale	13,523	11,798	11,407	10,522
Retail	5,595	4,940	5,611	4,985
Corporate and other	69	92	26	39
	23,434	**21,070**	**21,326**	**19,234**

Revenue information - geographical

	INA Group		INA Matica	
	2006	**2005**	**2006**	**2005**
Within Republic of Croatia	14,797	13,690	14,352	13,485
Within Former Republic of Yugoslavia	3,169	2,909	2,305	1,935
Within the European Union	2,410	1,559	4,176	3,415
Rest of the world	3,058	2,912	493	399
	23,434	**21,070**	**21,326**	**19,234**
Slovenia is member of European Union				

4. Depreciation and amortisation

	INA Group		INA Matica	
	2006	**2005**	**2006**	**2005**
Amortisation of intangible assets (note 10)	18	18	13	13
Depreciation of property, plant and equipment (note 11 b)	946	975	750	784
	964	**993**	**763**	**797**

5. Troškovi osoblja

	INA Group		INA Matica	
	2006	**2005**	**2006**	**2005**
Net payroll	1,199	1,120	778	737
Contributions for pensions and health insurance	836	759	561	521
Other payroll related costs	350	378	180	226
	2,385	**2,257**	**1,519**	**1,484**

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

Number	INA Group		INA Matica	
	2006	**2005**	**2006**	**2005**
Production	6,300	6,345	3,024	3,059
Distribution	4,465	4,490	3,758	3,778
Administration	4,229	4,284	2,989	3,031
Sales and marketing	460	470	61	63
Research and development	419	400	351	359
	15,873	**15,989**	**10,183**	**10,290**

6. Finance revenue

	INA Group		INA Matica	
	2006	**2005**	**2006**	**2005**
Foreign exchange gains	526	127	430	87
Other interest income	52	41	34	29
Dividends	3	5	3	254
Gains on embedded derivatives	39	5	39	5
Interest from financial assets	-	3	2	3
	620	**181**	**508**	**378**

7. Finance costs

	INA Group		INA Matica	
	2006	**2005**	**2006**	**2005**
Foreign exchange losses	217	310	151	218
Interest payable on long-term loans	87	48	75	35
Other interest payable	167	143	174	142
Other financial expenses	18	17	10	8
	489	**518**	**410**	**403**

8. Taxation

	INA Group		INA Matica	
	2006	**2005**	**2006**	**2005**
Current tax expense	274	236	225	198
Deferred tax (benefit) relating to origination and reversal of temporary differences	(53)	25	(51)	25
Income tax expense for the year	**221**	**261**	**174**	**223**

Domestic income tax rate is calculated at 20 per cent in 2006 (2005: 20 per cent) of the income before taxes for the year.

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

8. Taxation (continued)

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

	INA Group		INA Matica	
	2006	2005	2006	2005
Profit before tax	1,105	1,146	844	1,115
Income tax expense calculated at 20%	221	229	169	223
Tax effect of permanent differences	2	7	5	(25)
Utilization / (reversal) of unrecognized deferred tax assets	(2)	25	-	25
Current tax expense/(income)	**221**	**261**	**174**	**223**

In addition to the income tax expense charged to profit or loss, a deferred tax charge of HRK 17 million in 2006 (in 2005: HRK 24 million) has been recognized in equity. The movements in deferred tax assets were as follows:

INA Group	Value adjustment of current assets	Value adjustment of tangible and intangible assets	Reversal of depreciation for impaired assets	Provision recorded for ENI tax case	Value adjustment of financial investments	Total
Balance at 1 January 2005	**18**	**63**	**(1)**	**24**	**13**	**117**
Credit to equity for the year	-	24	-	-	-	24
Reversal of temporary differences	(12)	(36)	(4)	(22)	-	(74)
Origination of temporary differences	2	6	-	17	-	25
Balance at 31 December 2005	**8**	**57**	**(5)**	**19**	**13**	**92**
Credit to equity for the year	-	-	-	-	(17)	(17)
Reversal of temporary differences	(5)	(10)	(5)	(19)	-	(39)
Origination of temporary differences	22	42	-	23	6	93
Balance at 31 December 2006	**25**	**89**	**(10)**	**23**	**2**	**129**

8. Taxation (continued)

INA Matica	Value adjustment of current assets	Value adjustment of tangible and intangible assets	Reversal of depreciation for impaired assets	Provision recorded for ENI tax case	Value adjustment of financial investments	Total
Balance at 31 December 2004	**17**	**63**	**(1)**	**24**	**13**	**116**
Credit to equity for the year	-	24	-	-	-	24
Reversal of temporary differences	(12)	(36)	(4)	(22)	-	(74)
Origination of temporary differences	2	6	-	17	-	25
Balance at 31 December 2005	**7**	**57**	**(5)**	**19**	**13**	**91**
Credit to equity for the year	-	-	-	-	(17)	(17)
Reversal of temporary differences	(5)	(10)	(5)	(19)	-	(39)
Origination of temporary differences	22	42	-	23	3	90
Balance at 31 December 2006	**24**	**89**	**(10)**	**23**	**(1)**	**125**

9. Earnings per share

	INA Group	
	2006	**2005**
Basic and diluted earnings per share (in HRK)	**88.3**	**88.5**

9. Earnings per share (continued)

The earnings and weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share are as follow:

Earnings	INA Group	
	2006	2005
Profit for the period attributable to equity holders of the parent	883	885
Other	-	-
Earnings used in the calculation of total basic earnings per share	**883**	**885**

Number of shares	INA Group	
	2006	2005
Weighted average number of ordinary shares for the purposes of basic earnings per share (in millions)	10	10

10. Intangible assets

	INA Group	INA Matica
Balance at 31 December 2004	**1,352**	**1,339**
Additions	329	324
Amortisation	(18)	(13)
Write off	(153)	(153)
Transfer to property, plant and equipment	(959)	(959)
Balance at 31 December 2005	**551**	**538**
Additions	393	390
Amortisation	(18)	(13)
Write off	(180)	(176)
Transfer to property, plant and equipment	(61)	(61)
Balance at 31 December 2006	**685**	**678**

11. Property, plant and equipment

a) By business segment

INA Group	Oil and gas exploration and production, gas storage and oil field services	Rafining and Wholesale	Retail	Other	Total
At 31 December 2005					
Cost	29,826	10,793	2,355	1,370	44,344
Accumulated depreciation	22,386	7,771	1,497	681	32,335
Net book value	**7,440**	**3,022**	**858**	**689**	**12,009**
At 31 December 2006					
Cost	30,633	11,290	2,469	1,772	46,164
Accumulated depreciation	22,414	7,831	1,578	1,029	32, 852
Net book value	**8,219**	**3,459**	**891**	**743**	**13,312**
INA Matica					
At 31 December 2005					
Cost	26,689	9,767	2,297	483	39,236
Accumulated depreciation	19,965	7,271	1,444	238	28,918
Net book value	**6,724**	**2,496**	**853**	**245**	**10,318**
At 31 December 2006					
Cost	27,373	10,184	2,370	849	40,776
Accumulated depreciation	20,192	7,188	1,483	448	29,311
Net book value	**7,181**	**2,996**	**887**	**401**	**11,465**

11. Property, plant and equipment (continued)

b) By asset type

INA Group	Oil and gas properties	Land and buildings	Plant and machinery and assets under construction	Vehicles and office equipment	Collective Consumption assets	Total
Cost						
Balance at 31 December 2004 (restated)	**19,622**	**9,414**	**11,165**	**1,194**	**74**	**41,469**
Additions	-	6	1,759	38	-	1,803
Change of estimate in decommissioning costs	284	-	-	-	-	284
Strategic spare parts and transfer from intangible assets	-	-	1,068	-	-	1,068
Transfers	320	486	(850)	44	-	-
Disposals	-	(29)	(176)	(57)	(12)	(274)
Foreign exchange	-	(3)	(2)	(1)	-	(6)
Balance at 31 December 2005	**20,226**	**9,874**	**12,964**	**1,218**	**62**	**44,344**
Additions	-	13	2,627	39	-	2,679
Change of estimate in decommissioning costs	(400)	-	-	-	-	(400)
Transfer from intangible assets	-	-	62	-	-	62
Naftaplin - pipelines revaluation	-	(35)	(6)	-	-	(41)
Transfers	1,603	134	(1,798)	61	-	-
Disposals	(12)	(15)	(292)	(68)	(11)	(398)
Strategic spare parts transferred to inventory	-	-	(82)	-	-	(82)
Balance at 31 December 2006	**21,417**	**9,971**	**13,475**	**1,250**	**51**	**46,164**

11. Property, plant and equipment (continued)

b) By asset type (INA Group continued)

INA Group	Oil and gas properties	Land and buildings	Plant and machinery and assets under construction	Vehicles and office equipment	Collective Consumption assets	Total
Accumulated depreciation						
Balance at 31 December 2004 (restated)	**16,309**	**6,187**	**7,879**	**1,028**	**49**	**31,452**
Charge for the year	412	235	237	90	1	975
Additions	-	-	1	1	-	2
Strategic spare parts and transfer from intangible assets	-	-	46	1	-	47
Impairment losses/ Impairment loss adjustments	73	31	8	6	-	118
Transfers	(198)	229	2	(33)	-	-
Disposals	(2)	(28)	(162)	(56)	(8)	(256)
Foreign exchange	-	(1)	(1)	(1)	-	(3)
Balance at 31 December 2005	**16,594**	**6,653**	**8,010**	**1,036**	**42**	**32,335**
Charge for the year	382	214	261	88	1	946
Change of valuation	1	(2)	-	-	-	(1)
Strategic spare parts and transfer from intangible assets	-	-	2	-	-	2
Naftaplin Đ pipelines revaluation	-	(47)	(9)	-	-	(56)
Impairment losses/ Impairment loss adjustments	(16)	-	-	-	-	(16)
Transfers	(40)	(11)	45	6	-	-
Disposals	(12)	(9)	(269)	(64)	(4)	(358)
Balance at 31 December 2006	**16,909**	**6,798**	**8,040**	**1,066**	**39**	**32,852**

11. Property, plant and equipment (continued)

b) By asset type (INA Group continued)

INA Group	Oil and gas properties	Land and buildings	Plant and machinery and assets under construction	Vehicles and office equipment	Collective Consumption assets	Total
Caring amount						
At 31 December 2006	4,508	3,173	5,435	184	12	13,312
At 31 December 2005	3,632	3,221	4,954	182	20	12,009

The carrying amount of INA GROUP property, plan and equipment increased in 2006 for HRK 1,299 million, as a result of increase in value in cost by HRK 1,815 million offset by HRK 516 million increase in the amount of accumulated depreciation.

The increase of the property, and equipment in cost by HRK 1,815 million resulted from current year investments in the amount of HRK 2,627 million and transfers from intangible assets of HRK 62 million offset by decrease in the amount of HRK 926 HRK.

The main decreases resulted from:

- Decrease in decommissioning of assets
- Write offs
- Transfer of strategic spare parts into inventory position
- Disposals and sale.

11. Property, plant and equipment (continued)

b) By asset type (INA Matica continued)

INA Matica	Oil and gas properties	Land and buildings	Plant and machinery and assets under construction	Vehicles and office equipment	Collective Consumption assets	Total
Cost						
Balance at 31 December 2004 (restated)	**19,622**	**7,753**	**8,424**	**647**	**69**	**36,515**
Additions	-	1	1,602	1	-	1,604
Change of estimate in decommissioning costs	284	-	-	-	-	284
Strategic spare parts and transfer from intangible assets	-	-	1,068	-	-	1,068
Transfers	320	446	(783)	17	-	-
Disposals	-	(25)	(172)	(27)	(11)	(235)
Balance at 31 December 2005	**20,226**	**8,175**	**10,139**	**638**	**58**	**39,236**
Additions	-	13	2,318	-	-	2,331
Change of estimate in decommissioning costs	(400)	-	-	-	-	(400)
Strategic spare parts and transfer from intangible assets	-	-	62	-	-	62
Naftaplin Ð pipelines revaluation	-	(35)	(6)	-	-	(41)
Transfers	1,602	114	(1,736)	20	-	-
Disposals	(12)	(8)	(288)	(11)	(11)	(330)
Strategic spare parts transferred to inventory	-	-	(82)	-	-	(82)
Balance at 31 December 2006	**21,416**	**8,259**	**10,407**	**647**	**47**	**40,776**

11. Property, plant and equipment (continued)

b) By asset type (INA Matica continued)

INA Matica	Oil and gas properties	Land and buildings	Plant and machinery and assets under construction	Vehicles and office equipment	Collective Consumption assets	Total
Accumulated depreciation						
Balance at 31 December 2004 (restated)	**16,309**	**5,167**	**6,092**	**570**	**49**	**28,187**
Charge for the year	413	186	167	17	1	784
Additions	-	-	-	-	-	-
Strategic spare parts and transfer from intangible assets	-	-	46	1	-	47
Impairment losses/ Impairment loss adjustments	73	31	8	6	-	118
Transfers	(198)	207	15	(24)	-	-
Disposals	(3)	(24)	(157)	(26)	(8)	(218)
Balance at 31 December 2005	**16,594**	**5,567**	**6,171**	**544**	**42**	**28,918**
Charge for the year	383	163	187	16	1	750
Additions	-	9	-	-	-	9
Change of valuation	1	(2)	-	-	-	(1)
Strategic spare parts and transfer from intangible assets	-	-	1	-	-	1
Naftaplin - pipelines revaluation	-	(47)	(9)	-	-	(56)
Impairment losses/ Impairment loss adjustments	(16)	-	-	-	-	(16)
Transfers	(39)	(11)	44	6	-	-
Disposals	(12)	(4)	(261)	(13)	(4)	(294)
Balance at 31 December 2006	**16,911**	**5,675**	**6,133**	**553**	**39**	**29,311**

11. Property, plant and equipment (continued)

b) By asset type (INA Matica continued)

INA Matica	Oil and gas properties	Land and buildings	Plant and machinery and assets under construction	Vehicles and office equipment	Collective Consumption assets	Total
Carrying amount						
At 31 December 2006	**4,505**	**2,584**	**4,274**	**94**	**8**	**11,465**
At 31 December 2005	**3,632**	**2,608**	**3,968**	**94**	**16**	**10,318**

Additions to oil and gas properties and assets under construction include own costs capitalised in 2006 of HRK 11 million (2005: HRK 29 million;). Included above are assets under construction of HRK 2,318 million (2005: HRK 1,602 million) which are not yet subject to depreciation.

11. Property, plant and equipment (continued)

I) Oil and gas reserves

The ability of the Group to realise the net book value of oil and gas properties (see b) above) in the future is dependent upon the extent to which commercially recoverable oil and gas reserves are in place. During 2006 Naftaplin performed assessment of the quantities of the Company's remaining proved developed oil and gas reserves which were commercially recoverable (in 2005 the assessment was performed by independent evaluator).

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 2006 and 2005 (see note b) above). To date, no claims have been made against the Company concerning its title to these assets.

III) Collective consumption assets

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

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

At 31 December 2006 and 2005, the net book values of the Group's refining and retail property, plant and equipment were HRK 4,350 million and HRK 3,880 million, respectively.
Following the conclusion of the tender process initiated by the Government in 2002, and the resulting acquisition by MOL during the year of 25% plus one share of the Company, the Management Board has reviewed its plans for its refining and retail businesses.

As part of this review, the Management Board has assessed the carrying values of its refining marketing (before 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. Based on these cash flow estimates, the Management Board have 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 16 million reversed, and HRK 46 million charged (IAS 36), which has been included in impairment charges (net) in the years 2006 and 2005 respectively.

11. Property, plant and equipment (continued)

V) Review of residual values

Following the revisions to IAS 16 Property, plant and equipment that are effective since 1 January 2005, the Group has reviewed the residual values used for the purposes of depreciation calculations in the light of the amended definition of residual value in the revised Standard. The review did not highlight any requirement for an adjustment to the residual values used in the current or prior periods. In line with the new requirements, these residual values will be reviewed and updated annually in the future.

VI) Componentisation of plant and equipment

In addition to the revisions to IAS 16 Property, plant and equipment that are effective since 1 January 2005 , the Group has reviewed in the current year their property, plant and equipment in order to break down these assets to a certain level of details. The significant parts ("Components") of an asset have been identified. These components have been depreciated separately as there useful lives differ from the assets they were formally associated with. In line with the requirements, the componentisation of assets will be reviewed and updated annually in the future.

12. Investments in subsidiaries

	INA Matica	
	2006	2005
Equity investments in subsidiaries	**978**	**964**

12. Investments in subsidiaries (continued)

Basis of consolidated INA Group financial statements

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

2005

Name of company	Activity	Shareholding
Oilfield services		
*Crosco Naftni Servisi d.o.o. Zagreb	Oilfield services	100%
Crosco International Limited, Guernsey	Oilfield services	100%
Geotehnika International LLC, Abu Dhabi, UAE	Oilfield services	49%
Nordic Shipping Ltd, Marshall Islands	Platform ownership	100%
Sea Horse Shipping Inc, Marshall Islands	Platform ownership	100%
Crosco Drilling & Well Services (UK) Limited (dormant)	Financing	100%
Crosco International d.o.o. Slovenia (from 18 June 2004)	Oilfield services	100%
Mideast Integrated Drilling & Well Services Company LLC, Oman	Oilfield services	49%
Oil exploration and production		
*INA Naftaplin International Exploration and Production Ltd, Guernsey	Oil exploration and production	100%
CorteCros d.o.o., Zagreb	Distribution of anti-corrosion products	60%
Tourism		
*Hostin d.o.o. Zagreb	Tourism	100%
Ancillary services		
*STSI integrirani tehniãki servisi d.o.o. Zagreb	Technical services	100%
*Sinaco d.o.o. Sisak	Security	100%
ITR d.o.o., Zagreb	Car rental	100%
Production and trading		
*Maziva Zagreb d.o.o. Zagreb	Production and lubricants trading	100%
*Proplin d.o.o. Zagreb	Production and LPG trading	100%

12. Investments in subsidiaries (continued)

Basis of consolidated INA Group financial statements (continued)

2005 (continued)

Name of company	Activity	Shareholding
Trading and finance		
*Interina d.o.o. Ljubljana, Slovenia	Foreign trading	100%
*INA BH d.d. Sarajevo, Bosnia and Herzegovina	Foreign trading	100%
*Interina d.o.o., 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 (in liquidation)	Foreign trading	100%
*INA Hungary Kft., Budapest, Hungary	Foreign trading	100%
*FPC Ltd, London, UK	Foreign trading	100%
*Holdina (Guernsey) Ltd, Guernsey	Foreign trading	100%
Inter Ina (Guernsey) Ltd, Guernsey	Foreign trading	100%
Holdina d.o.o. Sarajevo, Bosnia and Herzegovina	Foreign trading	100%
Holdina (Cyprus) Ltd, Cyprus	Foreign trading	100%
Holdina (Ireland) Ltd, Ireland	Foreign trading	100%
*Commercina AG, Switzerland (in liquidation)	Foreign trading	100%
*INA d.o.o. Beograd, Serbia and Montenegro (from 12 August 2004)	Foreign trading	100%
*Infocentar d.o.o. Zagreb (in liquidation)	Information technology	100%
*Adriagas S.r.l. Milan, Italy	Pipeline project company	100%
*INA Crna Gora d.o.o. Kotor	Foreign trading	100%
*INA Crobenz d.d. Zagreb	Trading	98%
*Petrol d.d. Rijeka	Trading	83%
*INA-Osijek - Petrol d.d.	Trading	76%
*Polybit d.o.o. Rijeka (jointly controlled entity)	Oil production and trading	50%

12. Investments in subsidiaries (continued)

Basis of consolidated INA Group financial statements (continued)

2006

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

12. Investments in subsidiaries (continued)

Basis of consolidated INA Group financial statements (continued)

2006 (continued)

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

13. Investments in associates and joint ventures

	INA Group		INA Matica	
	2006	2005	2006	2005
Investments in associates and joint ventures	57	58	57	58
	57	**58**	**57**	**58**

Profit from joint venture	INA Group	
	2006	2005
Noble Crosco Drilling Ltd. - cash from dividends	-	35
Noble Crosco Drilling Ltd. - net effect of sold shares	-	38
	-	**73**

Movements in the investment in the Joint Venture during the year can be summarized as follows:

Investment in joint venture company at 31 December 2004	**99**
Write off negative goodwill 1 January 2005 (IFRS 3 Business Combinations)	44
Share in 2005. profit decreased for dividends paid	4
Investment in joint venture company before sales	147
Foreign currency translation adjustment	5
Net value of sold shares	152
Cash received (for sold shares - US$ 31,916 thousand)	190
Net effect of sold shares in JV Noble Crosco Drilling	**38**

The profit from Noble Crosco Drilling Ltd. relates to the portion of the profit incurred by the joint venture attributable to Crosco International Limited before sales (35 million HRK) and net effect from sold shares (38 million HRK).

13. Investments in associates and joint ventures (continued)

Name of company	Activity	% shareholding held by INA companies	2006	2005
Croplin d.o.o Zagreb	Gas trading	50%	35	36
SOL-INA d.o.o.	Industrial gas production	37%	22	22
Hayan Petroleum Company, Damascus, Syria (since May 2005)	Operating company (oil exploration, development and production)	50%	-	-
INAgip d.o.o. Zagreb	Exploration and production operator (joint venture)	50%	-	-
ED INA d.o.o. Zagreb	Research, development and hydrocarbon production	50%	-	-
Genan Trading Services Co. WLL Doha, Qatar (since August 2005)	Maintenance and technical engineering services	49%	-	-
Belvedere d.d., Dubrovnik	Hotel trade	32%	-	-
Adria LNG Study Company Ltd	Oil exploration	22%	-	-
			57	**58**

14. Investments in other companies

	INA Group		INA Matica	
	2006	2005	2006	2005
Investments up to 20%	26	30	20	24
Long-term loans	-	1	-	1
Deposits	22	23	22	22
Other investments	**48**	**54**	**42**	**47**

15. Long-term receivables

INA Group	**2006**	**2005**
Amounts receivable for apartments sold	180	192
Other long-term receivables	1	12
	181	**204**
INA Matica		
Amounts receivable for apartments sold	180	192
Long-term receivables from Proplin	87	87
Long-term receivables from Crosco	32	37
Long-term receivables from STSI	15	15
Other long-term receivables	25	13
	339	**344**

Prior to 1996, the Company had sold apartments it owned to its employees as provided by the laws of the Republic of Croatia. The properties were generally sold on credit, and the related housing receivables are repayable on a monthly basis over periods of 20-35 years. The amounts payable to Croatian state, accounting for 65% of the value of sold apartments are included in other non-current liabilities (Note 27). The receivables are secured by mortgages over the sold apartments. The principle is presented in the receivable amounts. The amounts do not include the interest portion.

16. Available for sale assets

Company available for sale

Name of the Company	% shareholding held by INA	Activity	2006	2005
Jadranski Naftovod d.d. (JANAF d.d.)	16.00%	Pipeline ownership and operations	405	225
OMV Slovenia d.o.o., Koper	7.75%	Oil trading	31	31
ENERGOMETAN SAMOBOR d.o.o.	33%		11	11
Impairment provision			(11)	(11)
			436	256

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 31, a substantial portion of the trading income of JANAF d.d. is derived from INA. Value of investment in JANAF d.d. is based on market value of a share noted in the Zagreb Stock Exchange at 31 December 2006. The value of this share at 31 December 2006 was HRK 3,400.03 (2005: HRK 1,890)

17. Inventories

	INA Group		INA Matica	
	2006	**2005**	**2006**	**2005**
Crude oil	299	465	299	465
Gas inventories	143	129	131	115
Merchandise	307	282	222	262
Raw material	232	1,058	187	938
Spare parts, materials and supplies	395	266	142	70
Work in progress	696	550	604	549
Refined products	766	669	782	622
Prepayments for inventories	-	23	-	14
	2,838	**3,442**	**2,367**	**3,035**

17. Inventories (continued)

There is no material difference between the carrying value and replacement cost, at the balance sheet date, of the stocks of crude oil and refined products of the Company and the Group. Pursuant to Ordinance on obligatory stock of oil and oil derivates follows that INA is obligator of maintaining 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 2006 amount to 466,173 oil units (20% of annual net import, which was kept on this level in 2006 based on the Government ordinance), out of total 558,228 oil units held on inventories balances as at year-end.

Obligatory INA stock as at 31 December 2005, based on realised net import (difference between import and export), at 31 December 2005 amounted to 436,272 oil units (20% of annual net import), out of total 492,974 oil units held on inventories balances as at year end.

Spare parts with characteristics of fixed assets in the amount of HRK 17 million were recorded under inventory. In case of exemption, such assets are included in the appropriate accounts of tangible fixed assets.

18. Trade receivables, net

	INA Group		INA Matica	
	2006	**2005**	**2006**	**2005**
Trade receivables	2,897	2,723	1,918	1,843
Allowance for doubtful receivables	(365)	(419)	(196)	(239)
	2,532	**2,304**	**1,722**	**1,604**

Other income in 2006 includes an amount of 11 million (HRK 19 million in 2005) relating to collection of receivables previously provided for.

19. Other receivables

	INA Group		INA Matica	
	2006	**2005**	**2006**	**2005**
Tax prepayments	607	166	523	113
Other	113	96	144	81
	720	**262**	**667**	**194**

20. Other current assets

	INA Group		INA Matica	
	2006	**2005**	**2006**	**2005**
Short-term loans and deposits	42	36	73	23
Other	11	21	11	17
	53	**57**	**84**	**40**

21. Prepaid expenses and accrued income

	INA Group		INA Matica	
	2006	**2005**	**2006**	**2005**
Prepayments for custom taxes, duties and other charges	176	180	109	180
Accrued income	22	108	66	86
Other	41	53	33	44
	239	**341**	**208**	**310**

22. Cash and cash equivalents

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

	INA Group		INA Matica	
	2006	**2005**	**2006**	**2005**
Cash on hand	8	4	1	2
Cash in the bank	580	348	183	122
Other	42	24	42	24
	630	**376**	**226**	**148**

Credit risk

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

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

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

23. Bank loans and overdrafts and current portion of long-term loans

	INA Group		INA Matica	
	2006	**2005**	**2006**	**2005**
Overdrafts and short-term loans	1,935	958	159	153
Current portion of long-term loans (note 26)	578	476	506	366
	2,513	**1,434**	**665**	**519**

23. Bank loans and overdrafts and current portion of long-term loans (continued)

	Repayment deadline	Security/Guarantee	2006	2005
BNP Paribas (US$)	by 31/05/2007	INA d.d. guarantee	461	209
Nova Ljubljanska banka, Ljubljana (SIT)	by 04/06/2007	-	4	5
Natexis Bank (US$)	by 31/12/2007	INA d.d. guarantee	59	-
Bank Tokyo Mitsubishi (US$)	by 14/09/2007	INA d.d. guarantee	230	169
Probanka d.d. (SIT)	by 18/03/2007	-	1	-
Raiffeisenbank Zagreb (EUR, US$ and HRK)	by 25/02/2007	-	37	17
Bank Austria Creditanstalt (US$)	by 20/10/2007		325	321
Zagrebaãka banka, Zagreb (EUR, US$,HRK) by 31/12/2006 - - 11				
Privredna banka Zagreb, Zagreb (HRK) by 31/12/2007 - 31 11				
Bank Muscat (US$) by 26/01/2006 - - 3				
Societe Generale - Splitska banka (US$, HRK) by 29/06/2007 - 57 41				
Slavonska banka Osijek by 09/10/2007	-	21	12	
Fortis (US$)	by 17/10/2007	INA dd guarantee	244	-
Citibank Int. (US$)	by 03/07/2007	-	306	-
Other overdrafts and short term loans			-	6
Current portion of long-term loans (note 26)			72	110
INA Matica				
Overdrafts and short term loans			159	153
Current portion of long-term loans (note 26)			506	366
Total INA Matica			**665**	**519**
Total INA Group			**2,513**	**1,434**

In 2006, interest on the above loans was paid at rates based on LIBOR plus up to 0.75 % (in 2005: LIBOR plus up to 1%). The Company uses several short-term bank loans to manage its short-term cash flow cycle, including facilities arranged through Interina Guernsey and Inter Ina Limited, wholly owned subsidiaries. These loans were typically settled in full every 90 days on a revolving basis.

24. Trade payables, taxes and contributions and other current liabilities

	INA Group		INA Matica	
	2006	**2005**	**2006**	**2005**
Trade payables	2,900	3,239	1,935	1,412
Production and sales taxes payable and other taxes	478	526	432	456
Payroll and payroll taxes	71	66	47	44
Other creditors	264	184	146	112
	3,713	**4,015**	**2,560**	**2,024**

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

25. Accruals and deferred income

	INA Group		INA Matica	
	2006	**2005**	**2006**	**2005**
Accrued interest - long-term loans	22	21	35	20
Accrued expenses	98	110	36	70
Other	37	36	44	25
	157	**167**	**115**	**115**

26. Long-term loans

Long-term loans are denominated in a variety of foreign currencies and are subject to a range of interest rates. The majority of these loans are secured by bills of exchange held by Croatian banks. The loans of the Group outstanding at 31 December 2006 are analysed as follows:

	Type of loan	Loan currency	2006	2005
Mizuho/Zagrebaãka banka	Syndicated/Revolving	US$	-	267
PBZ-API 80003	Loan	US$	2	2
ESB Bank	Loan (equipment)	USD, EUR	28	37
Viktor Lenac	Loan (equipment)	various	4	12
Jugobanka	Loan (equipment)	YEN	14	16
Montana Gas	Loan (equipment)	EUR	-	22
EBRD Environmental	EUR	157	211	
Mizuho/PBZ	Syndicates/Revolving	US$	1,673	405
			1,878	**972**
Due within 1 year			(506)	(366)
Total long-term loans - INA Matica			**1,372**	**606**
Other long term group loans			125	252
Due within 1 year			(72)	(110)
Total long-term loans - INA Group			**1,425**	**748**

INA Group	Weighted average interest rate (%)			
	2006	2005	2006	2005
Bank loans in US$	6.25	4.29	1,804	936
Bank loans in EUR	6.29	4.69	177	271
Bank loans in Yen	5.17	5.17	14	16
Bank loans in DKK	3.25	2.75	1	1
Bank loans in SIT	5.07	-	5	-
Bank loans in HRK	-	-	2	-
Total			**2,003**	**1,224**
Payable within 1 year			(578)	(476)
Total long-term loans - INA Group			**1,425**	**748**

26. Long-term loans (continued)

INA Matica	Weighted average interest rate (%)			
	2006	2005	2006	2005
Bank loans in US$	5.31	3.70	1,688	694
Bank loans in EUR	5.07	4.69	175	261
Bank loans in Yen	5.17	5.17	14	16
Bank loans in DKK	3.25	2.75	1	1
Total			**1,878**	**972**
Payable within 1 year			(506)	(366)
Total long-term loans - INA Group			**1,372**	**606**

The maturity of loans may be summarised as follows:

	INA Group		INA Matica	
	2006	2005	2006	2005
Current portion of long-term debt	578	476	506	366
Payable within one to two years	974	565	938	448
Payable within two to three years	383	55	381	50
Payable within three to four years	37	53	35	51
Payable within four to five years	20	42	18	38
Payable within over five years	11	33	-	19
Total	**2,003**	**1,224**	**1,878**	**972**

26. Long-term loans (continued)

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

	INA Group	INA Matica
At 31 December 2004	**1,304**	**1,012**
New borrowings raised	322	289
Amounts repaid	(480)	(380)
Foreign exchange gains	78	51
At 31 December 2005	**1,224**	**972**
Payable within 1 year (included within bank loans and overdrafts - note 23)	(476)	(366)
Payable after more than 1 year	748	606
At 31 December 2005	**1,224**	**972**
New borrowings raised	1,375	1,375
Amounts repaid	(454)	(346)
Foreign exchange losses	(142)	(123)
At 31 December 2006	**2,003**	**1,878**
Payable within 1 year (included within bank loans and overdrafts Ð note 23)	(578)	506
Payable after more than 1 year	1,425	1,372

The principal long-term loans outstanding at 31 December 2006 and the principal new loans drawn down and repaid during 2006 were as follows:

MIZUHO Corporate Bank LTD and Zagrebačka banka

During 2002, the Company entered into a long-term financing arrangement with MIZUHO Corporate Bank LTD and Zagrebaãka banka, at an interest rate of 6% at LIBOR plus 1.3 % annually in 2006 and 2005. The last installment was repaid on 22 July 2006. Thus, as of 31 December 2006, the entire loan was repaid. On 31 December 2005 the balance amounted to US$ 42.8 million or HRK 267 million.

Privredna banka Zagreb

The remaining long-term debt of the Company towards Privredna banka Zagreb amounts to HRK 2.1 million (2005: HRK 2.3 million) and represents a debt under the Refinanced Bonds Agreement for the issue of API bonds. The debt is dormant and will be refinanced. Out of a total loan balance of US$ 375 thousand US$ 341 thousand became due in 2006 (US$ 273 thousand became due in 2005).

26. Long-term loans (continued)

Erste & Steiermaerkische Bank, Viktor Lenac and Jugobanka

Erste & Steiermaerkische Bank and Viktor Lenac extended loans for the financing of imported equipment necessary for the construction and delivery of the "Labin" platform. The balance outstanding at 31 December 2006 was HRK 31.5 million and at 31 December 2005 HRK 48.5 million (in US$, EUR, DKK). Interest is payable on 31 January and 31 July annually, at various agreed rates.

Loans from Jugobanka were used for the purchase of material and equipment. The balance outstanding at 31 December 2006 was 14 million (2005: 16 million). Interest on these loans is paid at a fixed rate of 4.90% and 5.30%.

EBRD

In 2001 the Company concluded a long-term agreement with EBRD for a loan in the amount of EUR 36 million to finance environmental projects at INA. The loan utilisation period expired on 31 December 2005, with EUR 31.7 million drawn down until that date. A decision was made not to extend the utilisation period. The loan is repayable in 12 semi-annual installments, with the last installment due on 30 March 2011. The interest rate on this loan facility is 6-month EURIBOR + 1 percentage point. The balance outstanding at 31 December 2006 amounts to EUR 21.3 million, or HRK 156.6 million and at 31 December 2005 amounted to EUR 31.7 million or HRK 211 million).

MIZUHO Corporate Bank LTD and Privredna banka Zagreb

In August 2004 the Company concluded a syndicated long-term loan contract with Mizuho Corporate Bank Ltd in the amount of US$ 400 million for a five-year term. Until 31 December 2006 US$ 300 million (HRK 1,673.5 million) were drawn (until 31 December 2005 US$ 65 million or HRK 405 million were drawn). The Company is using the loan facility to finance modernization of refineries, exploration and production activities. The loan is repayable in semi-annual installments, commencing from 23 August 2007, at an interest rate six-month LIBOR plus 0.7 percentage points.

27. Other non-curent liabilities

	INA Group		INA Matica	
	2006	2005	2006	2005
Liabilities to Government for sold apartments	100	106	100	106
Deferred income for sold apartments	53	56	53	56
	153	162	153	162

The long-term payable to the government relates to obligation arising on the sale of housing units to employees under the government program (Note 15). 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.

28. Provisions

INA Group	Decommission Charges	Tax authority claims	Legal claims	ENI project claims	Redundancy costs	Tax obligation claims of Holdina Sarajevo	Other	Total
At 31 December 2004	**989**	**144**	**143**	**120**	**145**	**55**	**49**	**1,645**
Charge for the year	90	49	5	93	32	-	10	279
Effect of change in estimates, capitalised	283	-	-	-	-	-	-	283
Provision utilised during the year	(58)	-	(7)	(120)	(109)	(2)	(3)	(299)
At 31 December 2005	**1,304**	**193**	**141**	**93**	**68**	**53**	**56**	**1,908**
Charge for the year	82	-	25	34	24	2	-	167
Effect of change in estimates, capitalised	(400)	-	-	-	-	-	-	(400)
Provision utilised during the year	(44)	(193)	(3)	(12)	(37)	-	(25)	(314)
At 31 December 2006	**942**	**-**	**163**	**115**	**55**	**55**	**31**	**1,361**

INA Matica	Decommission Charges	Tax authority claims	Legal claims	ENI project claims	Redundancy costs	Other	Total
At 31 December 2004	**989**	**144**	**143**	**120**	**145**	**21**	**1,562**
Charge for the year	90	49	5	93	24	2	263
Effect of change in estimates, capitalised	283	-	-	-	-	-	283
Provision utilised during the year	(58)	-	(7)	(120)	(109)	(1)	(295)
At 31 December 2005	**1,304**	**193**	**141**	**93**	**60**	**22**	**1,813**
Charge for the year	82	-	25	34	-	1	142
Effect of change in estimates, capitalised	(400)	-	-	-	-	-	(400)
Provision utilised during the year	(44)	(193)	(3)	(12)	(37)	-	(289)
At 31 December 2006	**942**	**-**	**163**	**115**	**23**	**22**	**1,266**

28. Provisions (continued)

	INA Group		INA Matica	
	2006	**2005**	**2006**	**2005**
Analysed as:				
Current liabilities	175	149	143	134
Non-current liabilities	1,186	1,759	1,122	1,679
	1,361	**1,908**	**1,265**	**1,813**

Decommissioning charges

Provision relates to the decommissioning and removal of assets, such as an oil and gas production facility, the initial recognition of the decommissioning provision is treated as part of the cost of the related property, plant and equipment. Subsequent adjustments to the provision arising from changes in estimates are also treated as an adjustment to the cost of the property, plant and equipment and thus dealt with prospectively in the income statement through future depreciation of the asset. As of 31 December 2006, the Company recognised a decommissioning provision for 51 of those fields.

Tax authority claims

The balance sheets of the Group include an accrued provision of HRK 144 million from the year 2003 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 the secondary liability Tax authorities to appeal against this sales tax assessment in terms of both its nature and its amount. In 2006 the final decision was reached. The Company paid in total HRK 124 million.

Legal claims

The Company has provided for legal contingencies against them to which the Company has determined that a negative outcome is expected against them. The most significant provisions for legal claims are as follow:

"Veronika" d.o.o., Zagreb

The claim by "Veronika" d.o.o., Zagreb against INA d.d. is worth HRK 44 million. The plaintiff filed a legal action for damages on the grounds of discontinued gas supply, resulting in a loss of heat to greenhouses where the plants were subsequently frozen and destroyed. The High Commercial Court annulled the judgement of the Commercial Court in Zagreb and returned the case for re-trial. The hearing will probably include all witnesses previously heard, which could take approximately two years. The Commercial Court ruled as many as two times in favour of the plaintiff, acknowledging the full amount of the claim.

28. Provisions (continued)

Legal claims (continued)

"Katran" d.d., Zagreb

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

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

Uljanik Pula

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

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

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

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

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

28. Provisions (continued)

Legal claims (continued)

„Mimal 94“, d.o.o., Zagreb

The case initiated by „Mimal d.o.o.“, Zagreb against INA d.d. amounts to HRK 20,000,000. MIMAL 94 d.o.o., as plaintiff, filed a claim against INA d.d. before the Commercial Court in Zagreb on 31 August 2006, regarding the delivery of 2 000 tons of oil and 1 000 tons of fertiliser KAN 27% or demanding that the defendant delivers 2 700 tons of oil or pay the counter value of the oil quantity at the price effective on the date on which the first-instance court decision becomes final, including penalty interest accruing from the date of filing the claim until payment. Furthermore, the plaintiff claims disbursement of fee for the use of funds paid in the period from payment to the date on which the claim was filed, at the rate chargeable by Privredna banka Zagreb to the defendant for the use of working capital in the period.

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

ENI project claims

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

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

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

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

- and the calculation and payment of the Gross-up.

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

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

28. Provisions (continued)

Redundancy costs

The provision for redundancy payments is based on a 2004 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. Tax obligation claims of INA d.d. subsidiaries in Bosnia and Herzegovina Subsidiary INA BH Sarajevo d.o.o., by the final decision of the Tax Administration of the Cantonal Office Sarajevo was released from tax obligation previously set by the temporary decision of Tax Administration. Subsidiary HOLDINA Sarajevo d.o.o. recorded provisions for tax obligations in its books.

29. Retirement and other employee benefit schemes

Defined Benefit Schemes

According to the Collective Agreement the Group has obligation to pay jubilee awards, retirement and other benefits to employees. The Group operates defined benefit schemes for qualifying employees. Under the schemes, the employees are entitled to retirement benefits of a fixed amount of HRK 8,000 upon retirement. No other post-retirement benefits are provided. Jubilee awards are paid out according to the following fixed amounts and anniversary dates:

- HRK 1,500 for 10 years of service
- HRK 2,000 for 15 years of service
- HRK 2,500 for 20 years of service
- HRK 3,000 for 25 years of service
- HRK 3,500 for 30 years of service
- HRK 4,000 for 35 years of service
- HRK 5,000 for 40 years of service.

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

The actuarial valuations of the present value of the defined benefit obligation were carried out at 31 December 2005 by I.A.C.T.A. Actuarial Consulting Ltd and updated by the Group at 31 December 2006.

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

29. Retirement and other employee benefit schemes (continued)

		Valuation at
	2006	2005
Key assumptions used:		
Discount rate	5.0%	5.0%
Turnover rate	2.5%	2.5%
Mortality table	HR2004 70%	HR2004 70%
Average expected remaining working lives (in years)	16	17

The amounts recognized in profit from retirement and other employee benefits are as follow:

	INA Matica	
	2006	2005
Cost of current period	3	2
Interest	2	3
Actuarial gains or losses	(5)	2
	-	**7**

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

	INA Group		INA Matica	
	2006	2005	2006	2005
Present value of defined benefit obligations	80	78	53	53
Liability recognised in the balance sheet	**80**	**78**	**53**	**53**
This amount is presented in the balance sheet as follows:				
Current liabilities	8	7	5	5
Non-current liabilities	72	71	48	48
	80	**78**	**53**	**53**

29. Retirement and other employee benefit schemes (continued)

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

	INA Matica	
	2006	**2005**
At 1 January	53	46
Recognised cost in the current period	3	2
Interest	2	3
Actuarial gains or losses	1	11
Payments	(6)	(9)
At 31 December	**53**	**53**

30. Share capital

	2006.	**2005.**
Issued and fully paid:		
10 million shares (HRK 900 each)	**9,000**	**9,000**

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

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

The Company's share capital consists of 10 million authorised and issued shares of par value HRK 900 each. The Company has one class of ordinary shares which do not entitle to any fixed dividends or bear any restrictions.

31. Other reserves

The reserves of the Group include amounts in respect of accumulated surpluses and deficits, revaluations of property, plant and equipment and foreign exchange gains and losses which have arisen over many years prior to 1993. For several years, the Croatian economy was subject to hyperinflation and, prior to 31 December 1993, neither the Company nor the Group had been subject to audit. For these reasons, it was not practicable to analyse the composition of the reserves of the Company or the Group as at 31 December 1993 into their constituent parts. For subsequent periods, the results of the transactions of the Group, to the extent that they affect reserves, are accounted for within appropriate reserve accounts. The reserves of the Group as at 31 December 1993 were combined at that date, and are separately stated below.

Movements on reserves during the year were as follows:

INA Group	Combined reserves at 31 December 1993	Foreign currency translation reserve	Other reserves	Total
At 31 December 2004	**2,132**	**(230)**	**447**	**2,349**
Movements during 2005	-	41	-	41
At 31 December 2005	**2,132**	**(189)**	**447**	**2,390**
Movements during 2006		(43)		(43)
At 31 December 2006	**2,132**	**(232)**	**447**	**2,347**

INA Matica	Combined reserves at 31 December 1993	Other reserves	Total
At 31 December 2005	1,667	285	1,952
At 31 December 2006	1,667	285	1,952

32. Retained earnings

	INA Group Retained earnings / (Accumulated deficit)	INA Matica Retained earnings / (Accumulated deficit)
Balance at 1 January 2005	**(446)**	**(1,011)**
Adoption of revised International Financial Reporting Standards	44	-
Balance at 1 January 2005 revised	**(402)**	**(1,011)**
Profit for the year	885	892
At 31 December 2005	**483**	**(119)**
Profit for the year	883	670
At 31 December 2006	**1,366**	**551**

33. Minority interests

At 31 December 2005	**6**
At 31 December 2006	**7**

34. Segment analysis

a) Primary disclosure by business segments

INA Grupa	Exploration and production	Rafining and marketing	Retail	Corporate and other	Elimination	Total
Year 2006						
Sales to external customers	4,247	13,523	5,595	69	-	23,434
Inter-segment sales	2,547	4,613	74	621	(7,855)	-
Total revenue	**6,794**	**18,136**	**5,669**	**690**	**(7,855)**	**23,434**
Operating expenses, net of other operating income	(5,171)	(17,966)	(5,636)	(1,542)	7,855	(22,460)
Profit/(loss) from operations net of other income	**1,623**	**170**	**33**	**(852)**	**-**	**974**
Net finance cost						131
Profit before tax						1,105
Income tax expense						(221)
Profit for the year						**884**
Year 2005						
Sales to external customers	4,240	11,798	4,940	92	-	21,070
Inter-segment sales	2,367	3,926	54	881	(7,228)	-
Total revenue	**6,607**	**15,724**	**4,994**	**973**	**(7,228)**	**21,070**
Operating expenses, net of other operating income	(5,045)	(15,325)	(4,929)	(1,589)	7,228	(19,660)
Profit/(loss) from operations net of other income	**1,562**	**399**	**65**	**(616)**	**-**	**1,410**
Share in the profit of associated companies						73
Net finance cost						(337)
Profit before tax						1,146
Income tax expense						(261)
Profit for the year						**885**

34. Segment analysis (continued)

a) Primary disclosure by business segments

INA Matica	Exploration and production	Rafining and marketing	Retail	Corporate and other	Elimination	Total
Year 2006						
Sales to external customers	4,282	11,407	5,611	26	-	21,326
Inter-segment sales	2,271	4,557	14	-	(6,842)	-
Total revenue	**6,553**	**15,964**	**5,625**	**26**	**(6,842)**	**21,326**
Operating expenses, net of other operating income	(5,034)	(15,877)	(5,590)	(921)	6,842	(20,580)
Profit/(loss) from operations net of other income	**1,519**	**87**	**35**	**(895)**	**-**	**746**
Net finance cost						98
Profit before tax						844
Income tax expense						(174)
Profit for the year						**670**
Year 2005						
Sales to external customers	3,688	10,522	4,985	39	-	19,234
Inter-segment sales	2,101	3,746	17	-	(5,864)	-
Total revenue	**5,789**	**14,268**	**5,002**	**39**	**(5,864)**	**19,234**
Operating expenses, net of other operating income	(4,262)	(14,043)	(4,949)	(704)	5,864	(18,094)
Profit/(loss) from operations net of other income	**1,527**	**225**	**53**	**(665)**	**-**	**1,140**
Net finance cost						(25)
Profit before tax						1,115
Income tax expense						(223)
Profit for the year						**892**

34. Segment analysis (continued)

a) Primary disclosure by business segments

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

34. Segment analysis (continued)

a) Primary disclosure by business segments

INA Grupa	Exploration and production	Rafining and marketing	Retail	Corporate and other	Elimination	Total
Year 2005						
Assets and liabilities						
Property, plant and equipment	7,440	3,022	858	689	-	12,009
Intangible assets	414	15	15	107	-	551
Investments in associates and joint ventures	58	-	-	-	-	58
Inventories	547	2,766	129	-	-	3,442
Trade receivables, net	1,257	2,225	340	179	(1,697)	2,304
Not allocated assets						1,931
Total assets						**20,295**
Trade payables	1,200	2,404	1,473	357	(2,195)	3,239
Not allocated liabilities						5,273
Total liabilities						**8,512**
Other segment information						
Capital expenditure:	**1,399**	**611**	**125**	**202**	**(205)**	**2,132**
Property, plant and equipment	1,158	606	123	116	(200)	1,803
Intangible assets	241	5	2	86	(5)	329
Depreciation and amortisation	**826**	**220**	**121**	**97**	**-**	**1,264**
From this: Impairment losses recognized in profit and loss	226	-	45	-	-	271

34. Segment analysis (continued)

a) Primary disclosure by business segments

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

34. Segment analysis (continued)

a) Primary disclosure by business segments

INA Matica	Exploration and production	Rafining and marketing	Retail	Corporate and other	Elimination	Total
Year 2005						
Assets and liabilities						
Property, plant and equipment	6,724	2,496	853	245	-	10,318
Intangible assets	426	3	2	107	-	538
Investment in subsidiaries	374	304	-	286	-	964
Investments in associates and joint ventures	58	-	-	-	-	58
Inventories	423	2,483	129	-	-	3,035
Trade receivables, net	677	1,106	314	8	(501)	1,604
Not allocated assets						2,220
Total assets						**18,737**
Trade payables	973	2,827	200	119	(1,411)	2,708
Not allocated liabilities						5,292
Total liabilities						**8,000**
Other segment information						
Capital expenditure:	**1,265**	**397**	**138**	**128**	**-**	**1,928**
Property, plant and equipment	1,029	394	136	45	-	1,604
Intangible assets	236	3	2	83	-	324
Depreciation and amortisation	**517**	**165**	**75**	**40**	**-**	**797**
From this: Impairment losses recognized in profit and loss	73	-	45	-	-	118

34. Segment analysis (continued)

b) Secondary disclousure by geographical segments

INA Group	Republic of Croatia	Middle East and Africa	Rest of the world	Total
2006				
Assets				
Property, plant and equipment	11,037	1,986	289	13,312
Intangible assets	414	263	8	685
Investments in associates and joined ventures	57	-	-	57
Inventories	2,790	-	48	2,838
Trade receivables, net	1,898	114	520	2,532
Not allocated assets				2,764
Total assets				**22,188**
Other segment information				
Capital expenditure:	**2,465**	**571**	**36**	**3,072**
Property, plant and equipment	2,159	496	24	2,679
Intangible assets	306	75	12	393
2005				
Assets				
Property, plant and equipment	10,077	1,756	176	12,009
Intangible assets	187	363	1	551
Investments in associates and joined ventures	20	-	38	58
Inventories	3,398	-	44	3,442
Trade receivables, net	1,882	131	291	2,304
Not allocated assets				1,931
Total assets				**20,295**
Other segment information				
Capital expenditure:	**1,722**	**351**	**59**	**2,132**
Property, plant and equipment	1,596	148	59	1,803
Intangible assets	126	203	-	329

34. Segment analysis (continued)

b) Secondary disclousure by geographical segments

INA Matica	Republic of Croatia	Middle East and Africa	Rest of the world	Total
2006				
Assets				
Property, plant and equipment	9,845	1,509	111	11,465
Intangible assets	403	263	12	678
Investment in subsidiaries	901	-	77	978
Investments in associates and joined ventures	57	-	-	57
Inventories	2,367	-	-	2,367
Trade receivables, net	1,374	114	234	1,722
Not allocated assets				3,026
Total assets				**20,293**
Other segment information				
Capital expenditure:	**2,215**	**470**	**36**	**2,721**
Property, plant and equipment	1,912	395	24	2,331
Intangible assets	303	75	12	390
2005				
Assets				
Property, plant and equipment	8,924	1,218	176	10,318
Intangible assets	174	363	1	538
Investment in subsidiaries	901	-	63	964
Investments in associates and joined ventures	58	-	-	58
Inventories	3,035	-	-	3,035
Trade receivables, net	1,272	111	221	1,604
Not allocated assets				2,220
Total assets				**18,737**
Other segment information				
Capital expenditure:	**1,537**	**332**	**59**	**1,928**
Property, plant and equipment	1,416	129	59	1,604
Intangible assets	121	203	-	324

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

35. Related party transactions (continued)

Trading transactions

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

INA Matica	Sales of goods		Purchase of goods	
Business partners	**2006**	**2005**	**2006**	**2005**
Foreign related companies				
Interina Ltd Guernsey	2,206	2,064	1,070	989
Holdina Sarajevo	529	453	-	-
Interina d.o.o. Mostar	258	222	-	-
Interina d.o.o. Ljubljana	69	70	-	-
Interina Ltd London	-	71	8,030	8,855
Domestic related companies				
Crosco Group	21	19	190	422
Osijek Petrol d.d.	1,229	948	-	-
Crobenz d.d. Zagreb	725	602	-	-
Proplin d.o.o. Zagreb	422	389	172	111
STSI d.o.o. Zagreb	23	24	324	332
Maziva Zagreb d.o.o. Zagreb	64	35	57	53
Companies available for sale				
JANAF d.d. Zagreb	-	-	36	51
Strategic partner				
MOL Plc.	100	112	612	368

35. Related party transactions (continued)

Trading transactions (continued)

INA Matica Business partners	Sales of goods 2006	 2005	Purchase of goods 2006	 2005
Companies controlled by the State				
Croatian Railways	240	138	30	35
Croatian Electricity (HEP)	1,168	806	73	112
Croatian Telecom	13	3	24	23
Croatia osiguranje	1	1	54	45
Croatian Post (Hrvatska po?ta)	15	1	3	4
Ministry of Defence of Republic of Croatia	105	64	-	-
Hrvatske ?ume	60	10	1	1
Jadrolinija	160	96	3	3
Narodne novine	1	-	8	15
Hrvatska radio televizija	3	-	1	4
Plovput	1	-	-	-
Croatia Airlines	166	169	-	-
Petrokemija Kutina	612	515	-	-
Plinacro	10	3	364	422
Zeljezara Sisak	-	8	1	-

35. Related party transactions (continued)

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

INA Matica	Amounts owed from related parties		Amounts owed to related parties	
Business partners	**2006**	**2005**	**2006**	**2005**
Foreign related companies				
Interina Ltd Guernsey	101	85	187	164
Holdina Sarajevo	70	66	2	1
Interina d.o.o. Mostar	52	41	8	-
Interina d.o.o. Ljubljana	10	15	-	-
Interina Ltd London	-	-	1,944	2,056
Domestic related companies				
Crosco Group	4	7	105	104
Osijek Petrol d.d.	112	120	6	1
Crobenz d.d. Zagreb	99	59	2	1
Proplin d.o.o. Zagreb	83	69	16	11
STSI d.o.o. Zagreb	24	7	343	193
Maziva Zagreb d.o.o. Zagreb	24	23	17	23
Companies available for sale				
JANAF d.d. Zagreb	-	-	3	-
Strategic partner				
MOL Plc.	6	11	176	42

35. Related party transactions (continued)

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

INA Matica	Amounts owed from related parties		Amounts owed to related parties	
Business partners	2006	2005	2006	2005
Companies controlled by the State				
Croatian Railways	65	53	5	8
Croatian Electricity (HEP)	118	222	-	10
Croatian Telecom	2	3	2	2
Croatia osiguranje	4	-	9	2
Croatian Post (Hrvatska po?ta)	2	2	-	1
Ministry of Defence of Republic of Croatia	16	33	-	-
Hrvatske ?ume	5	7	-	-
Jadrolinija	39	24	-	1
Narodne novine	-	-	-	6
Hrvatska radio televizija	-	-	-	2
Plovput	-	-	-	-
Croatia Airlines	15	19	-	-
Petrokemija Kutina	58	86	-	28
Plinacro	14	1	18	82
Zeljezara Sisak	-	7	1	-

35. Related party transactions (continued)

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

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. Amounts owed by related parties are net of allowance for doubtful accounts.

Compensation of key management personnel

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

	INA Matica 2006	INA Matica 2005
Short-term employee benefits	38	34
Termination bonuses	1	23
Total	**39**	**57**

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

Based upon signed representations in connection with the related party disclosure requirements, employees of INA d.d. declared that none of their close family members of the INA d.d. management team had any interest with INA d.d. that would enable them to benefit from any favourable influence over the entity, in either 2006 or 2005.

Other related party transactions

The Company is the principal customer of Crosco Naftni Servisi d.o.o. and its subsidiaries. The Crosco Group, with the Company as its sole owner (Note 12), presented consolidated 2006 revenue in the amount of HRK 1,389 million (2005: HRK 1,218 million), of which HRK 472 million (2005: HRK 422 million) were generated mainly from sale of technological services to INA Matica.

The Company is also the major customer of the service companies STSI d.o.o. and Maziva Zagreb d.o.o., both established in 2002, and of Sinaco d.o.o., which was established in 2003 (Note 12).

The Company remains the major customer of its associated company JANAF d.d., in which it has a holding of 16.00% (Note 16). In 2006, approximately HRK 49 million of the associated company's total revenue in the amount of HRK 342 million account for sales revenue in respect of INA Matica as user of the pipeline system of JANAF d.d. (2005: HRK 51 million out of HRK 335 million total revenue).

36. 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 sup plement 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 23.

Investment in refining assets to comply with new standards for fuels

In 2005, a temporary investment unit for the modernisation of refinery operations was established based upon a Company management decision. The Company is committed to a programme of capital investment in its refineries in order to enable them to continue to produce fuels which comply with increasingly stringent environmental standards in the Group's key markets. The tasks of the investment unit and its teams include managing modernisation projects at the Sisak and Rijeka Refineries. The ultimate objective of the programme is to meet the European quality standards applicable to refinery products until specified effective dates. The construction of new plants and the modernisation of the existing ones will significantly expand the quantitative capacities of the refineries, as well as improve the product quality.

For the purposes of the implementation of the refinery modernisation project, 22 contracts were concluded with vendors as at 31 December 2006, worth HRK 376 million.

Purchase of new investment

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

- KM 10.2 million for the Government of the Federation of Bosnia and Herzegovina with respect to recapitalisation rights; and
- KM 60,195 million to Energopetrol with respect to recapitalisation, which Energopetrol will use to settle its debt (tax liabilities, amounts due to banks and creditors, and other liabilities) as of 31 December 2004;

36. Commitments (continued)

Purchase of new investment (continued)

The Consortium, according to the above stated Agreement, shall invest KM 150 million in the following three-year period:

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

Participation and Joint Operating Agreement

On 14 September 2006 INA Industrija nafte d.d. and MOL HUNGARIAN OIL AND GAS PLC (further referred to as "MOL") concluded Participation and Joint Operating Agreement in the Contract Area Podravska Slatina - Zalata. The parties will share equally 50 % participating interest in the Agreement.

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

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

The Agreement stipulates the expenditures of well drilling on the territory of the Zalata licence in the amount budgeted of EUR 5 million, and Podravska Slatina licence in the same amount under the condition the Zalata licence would be successful.

Purchase obligations under take or pay contracts

On 1 June 2005 Ina Industrija Nafte d.d. concluded the contract with GAZEXPORT Ltd., Moscow for the supply of 1.2 bcm per year of natural gas under take or pay commitment until 2010. As of 31 December 2006 the Company's respective obligation is HRK 6,878,136,000 until the expiry of the contract (for the remaining four years, i.e. until 31 December 2010).

Additionally, the Company concluded transportation agreements to ensure deliveries of the gas to the destination point. Validities of transportation contracts are until 2010 for Slovakia, 2015 for Slovenia and 2017 for Austria. The future commitments contracted approximate to HRK 2,761,492,000 until 2017.

36. Commitments (continued)

Gas selling Contracts

For the periods ending 31 December 2005 and 31 December 2006 the Group had following long term natural gas sale contracts:

I. In the period from 31 December 2005 to the expiry of the underlying contract:

1. Long-term contract between INA and HEP d.d. Zagreb
   a) Contracted supply quantity: 700,000,000 m3/year
   b) Annual sales: HRK 469,415,000
   c) Contract period: until 2015
   d) Estimated revenue for the remaining period: HRK 14,742,870,000

2. Long-term contract between INA - PETROKEMIJA d.d. Kutina
   a) Contracted supply quantity: 460,000,000 m3/year
   b) Annual sales: HRK 361,796,589
   c) Contract period: until 2006
   d) Estimated revenue for the remaining period: HRK 361,796,589

3. Long-term contract between INA and PLIVA d.d. Zagreb
   a) Contracted supply quantity: 14,000,000 m3/year
   b) Annual sales: HRK 12,263,000
   c) Contract period: until 2013
   d) Estimated revenue for the remaining period: HRK 227,595,000

II. In the period from 31 December 2006 to the expiry of the underlying contract

1. Long-term contract between INA and HEP d.d. Zagreb
   a) Contracted supply quantity: 700,000,000 m3/year
   b) Annual sales: HRK 770,000,000
   c) Contract period: until 2015
   d) Estimated revenue for the remaining period: HRK 6,930,000,000

2. Long-term contract between INA and PETROKEMIJA d.d. Kutina
   a) Contracted supply quantity: 630,000,000 m3/year
   b) Annual sales: HRK 598,500,000 (2007); 661,500,000 (2008)
   c) Contract period: until 2008
   d) Estimated revenue for the remaining period: HRK 1,260,000,000

3. Long-term contract between INA and PLIVA d.d. Zagreb
   a) Contracted supply quantity: 14,000,000 m3/year
   b) Annual sales: HRK 16,418,332
   c) Contract period: until 2013
   d) Estimated revenue for the remaining period: HRK 114,928,324

4. Contract INA Ð VCS d.o.o. Sisak
   a) Contracted supply quantity: 17,800,000 m3 in 2007
   b) Annual sales: HRK 17,800,000
   c) Contract period: until 2007

5. Contracts INA - tariff-based customers - natural gas (distribution entities and direct industrial consumers);
   a) Contracted supply quantity: 1,918,557,000 m3 in 2007 (budget)
   b) Annual sales: HRK 2,052,855,990 (budget)
   c) Contract period: 2007

37. Contingent liabilities

Environmental matters

The principal activities of the Company and the Group, comprising oil and gas exploration, production, transportation, refining and distribution, can have inherent effects on the environment in terms of emissions into land, water and air. The environmental effects of the Group's activities are monitored by local management and environmental authorities, but currently there is no legal environmental obligation for the Group.

Accordingly, no provisions, other than an accrual for future costs relating to the decommissioning of the Company's oil and gas properties, 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.

In 2006, as part of the second privatization stage, Golder Associates performed an independent appraisal in respect of environmental protection at INA's organisational units and provided an evaluation of future investments INA would have to incur to follow EU environmental regulation. Thus, the costs of compliance with the EU environmental regulation have been estimated at around HRK 300 million, and those regarding the restoration of soil and water, as well as those pertaining to pollutions at an earlier dates at around HRK 200 million.

Disposal of Siberian Energy Investments Limited and "White Nights"

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

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

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

38. 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.

Price risk management

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

The Group is a net buyer of crude oil which is typically purchased under short term arrangements in United States Dollars at current market prices. Derivatives contracts are used to a very limited extent to reduce the Group's exposure to short-term United States dollar oil price fluctuations, which affect the Group's margins and cash flow. At 31 December 2006 and 2005 there were no open derivative 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 United States dollars. Transport of imported gas to the Croatian border is provided under various long-term agreements at prices set in foreign currencies and escalated according to certain energy and inflation indices. Domestic gas sales prices in Croatia are set under contractual arrangements, which vary according to class of customer. The Group does not employ forward contracts to manage its gas purchase price risk.

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 incurring interest at variable 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 26.

38. Financial instruments and risk management (continued)

Foreign exchange risk

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

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 44 million in 2006 (exchange gains of HRK 41 million in 2005), which are charged directly to reserves in accordance with IAS 21.

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.

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 2006 and 2005 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 note 36) 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.

38. Financial instruments and risk management (continued)

Fair values of financial instruments (continued)

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

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

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

	INA Group and INA Matica	
	2006	**2005**
Fair value	289	284
Financial income relating to the net change in fair value in the year (Note 6)	39	5
Fair value at 31 December	**328**	**289**

	INA Group and INA Matica	
	2006	**2005**
Analysed as:		
Current portion	77	64
Non-current portion	251	225
	328	**289**

39. Subsequent events

Purchase of new investment

Based on the obligations assumed under the Recapitalisation Agreement, INA and MOL paid on 27 February 2007, each 50 per cent of the following:

- KM 60,195 million as additional capital contribution for Energopetrol, on the special-purpose account of Energopetrol opened at UPI Banka;

- KM 10.2 million (intended for the Government of the Federation of Bosnia and Herzegovina) on an escrow account with UPI Banka. The funds will be transferred from the escrow account to the account of the Government of the Bosnia-Herzegovina Federation Budget upon receipt of the excerpt from the Register of Securities of the Federation of Bosnia and Herzegovina, which certify that INA and MOL have been duly registered as the shareholders of the shares constituting 67 per cent of the share capital of Energopetrol and giving 67 per cent of votes in the General Assembly of Energopetrol.

The transfer of the funds from those accounts can be effected only with a jointly placed signatures of the respective representatives of INA, MOL and Energopetrol.

Following the payment of the additional capital contributions, a process of capital increase and registration at the Register of Securities of the Federation of Bosnia and Herzegovina has been initiated, to register INA and MOL as the shareholders of Energopetrol, each with a holding of 33.5 per cent.

To regulate the relationship between INA and MOL in managing Energopetrol, INA and MOL have concluded a Shareholders Agreement, in accordance with the Decision of the Management Board and a prior consent of the Supervisory Board of INA d.d.

Krajinapetrol additional investment

INA Industria nafte d.d. posses 9.72 % of share capital of Krajinapetrol A.D. Banja Luka. Currently, the Company is negotiating with the Government of Republika Srpska the final settlement on the restitution of property of Krajinapetrol by which INA would obtain a controlling interest in the investee (INA is in negotiations with the Serbian government to acquire 42.3 per cent of Krajinapetrol). Krajinapetrol has 14 stations.

Completion of the liquidation of Interina Frankfurt GmbH

Following the 1993 restructuring and registration of INA as a joint stock company in accordance with the Companies Act, INA underwent significant restructuring processes. In the years that followed, the Management Board of INA gradually extinguished its foreign entities, as their operations were transferred to INA Matica. Among others, the Management Board of INA d.d decided to extinguish the company Interina Frankfurt GmbH. However, because of a pending litigation, the liquidation process, together with the deletion from the court register, had to be prolonged. Following the completion of the liquidation proceedings, Interina Frakfurt GmbH was deleted from the court register on 16 January 2007.

39. Subsequent events (continued)

Accident at the Sisak Refinery

On 27 February 2007, at 15:05, a safety valve was activated and opened at the Sisak Refinery when starting the plant for secondary raw material processing. The incident lasted 5 to 7 minutes, and around 5 m3 of heating oil quality material was released in the atmosphere. The dispersed material contaminated the cars on the Refinery's parking lot and two housing blocks close to the fence of the Refinery. INA has committed to reimburse all costs resulting from the incident. The number reported claims received so far is 171, and the quantification of the volume of damage is still in progress. The City of Sisak sued INA d.d. for the amount of HRK 11 million.

Changes in applicable laws and regulations

Effective 8 January 2007, a new legislation was introduced in the Republic of Croatia (Regulation on Pricing of Oil Derivatives: Official Gazette No. 3, 08/01/2007) introducing a new component in the wholesale price relating to the financing of Croatian Agency for Obligatory Reserve of Oil and Oil Derivatives.

It requires the company to pay HRK 150 per sold ton of oil and oil derivatives.

Strategic reserves

As part of the Croatian Government's review of all issues related to Croatia's strategic reserves, it has indicated to INA that it may require INA to transfer the gas storage facility at Okoli to the Government or a Government owned or controlled entity. The terms of the transfer have not yet been determined. If the transfer is required, the Government is expected to continue to provide gas storage facilities to all relevant market participants, including INA, at rates that are expected to be based on the costs of operating the facilities. It is possible that INA may manage the facility on behalf of the Government following such a transfer. Although the basis of transfer and the rules and tariffs for gas storage going forward are not yet determined, INA does not expect the transfer of its gas storage facilities or future storage costs to have a material effect on its balance sheet or operating expenses.

40. Approval of the financial statements

These financial statements were approved by the Management Board and authorised for issue on 20 March 2007.

Signed on behalf of the Company on 20 March 2007 by:

Zalán Bács	Tomislav Dragičević
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