

INA
Annual Report
2008



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INTRODUCTION



INA d.d. COMPANY PROFILE

COMPANY INCORPORATION

INA-Industrija nafte d.d. (INA d.d.) is a joint stock company owned by the Hungarian oil company MOL (47.16%), the Republic of Croatia (44.84%) and private and institutional shareholders (8.00%). INA d.d. shares have been listed on the London and Zagreb stock exchanges since 1 December 2006.

INA d.d. was established on 1 January 1964, when Nafapljin (oil and gas exploration and production company) merged with the oil refineries in Rijeka and Sisak. By the end of the same decade, INA d.d. was expanded to include the Zagreb refinery, Trgovina (domestic trade company), petrochemical plants OKI and DINA, and the Kutina fertilizer plant. In 1993, INA d.d. was organized as a joint stock company.

INA GROUP

The Group comprises a number of companies either partially or fully owned by the company Ina d.d. The registered office of the company is at Većeslav Holjevac Avenue No 10, Zagreb, Croatia. Ina Group had 16,632 employees on 31 December 2008. The Group holds the dominant position in oil business in Croatia; it is a leader in oil and gas exploration and production, in oil processing and in oil and oil derivatives distribution.



KEY BUSINESS AREAS COVERED BY INA d.d. AND ITS SUBSIDIARIES

- Exploration and production of oil and gas in Croatia and abroad
- Import of natural gas and sales of imported and domestic natural gas to industrial consumers and distributors
- Processing of oil and production of oil derivatives in the refineries located in Rijeka (Urinj) and Sisak, where fuels production is located, and Rijeka (Mlaka) and Zagreb, where lubricants are produced
- Retail sales of oil derivatives and other products through a retail network comprising 435 petrol stations in Croatia (of which, INA d.d. owns 413, and subsidiary companies own 22), and 50 petrol stations in neighbouring countries
- Trading in crude oil and oil derivatives
- Provision of drilling, workover and other services related to oil and gas exploration and production, both on-shore and off-shore - services are provided by Crosco-Naftni Servisi d.o.o.
- Provision of services related to the construction of oil pipelines, gas pipelines, processing plants and processing plant maintenance - services are provided by STSI d.o.o.
- Production and sales of lubricants - Maziva-Zagreb d.o.o.
- Production and trade in liquefied natural gas - Proplin d.o.o.
- Catering and tourism - Hostin d.o.o.
- Car and boat rental - ITR d.o.o.
- Occupational health and safety - Sinaco d.o.o.



INA d.d. DIRECTORS AND MANAGEMENT

General Assembly

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

Supervisory Board

<u>Damir Polančec</u>	Chairman
<u>Zoltán Áldott</u>	Deputy
<u>Đuro Dečak</u>	Member
<u>Ivan Šuker</u>	Member
<u>Tomislav Ivić</u>	Member
<u>László Geszti</u>	Member

At its session held on 29 October 2008, the Supervisory Board decided to appoint Mr. Damir Polančec as Chairman of the Supervisory Board to replace the former Chairman Mr. Ivan Šuker.

Management Board

<u>Tomislav Dragičević</u>	President of the Board
<u>Zálan Bács</u>	Vice-President of the Board and Executive Director of Finance Function
<u>Mirko Zelić</u>	Member of the Board for Oil and Gas Exploration and Production Division
<u>Josip Petrović</u>	Member of the Board and Executive Director of Refining and Marketing Division
<u>Niko Paulinović</u>	Member of the Board and Executive Director of Retail Services Division
<u>Darko Markotić</u>	Member of the Board and Director of Corporate Services Function
<u>Tomislav Thür</u>	Member of the Board and Director of Corporate Processes Function

At its session held on 18 June 2008, the Supervisory Board relieved from duty Mr. Sándor Lendvai, Member of the Management Board and Director of Corporate Services, and subsequently appointed Mr. Darko Markotić to the same position.

TOMISLAV DRAGIČEVIĆ, President of the Management Board

Dr. sc. Tomislav Dragičević (57) graduated from the Faculty of Chemical Engineering, University of Zagreb. In 1984 he got his master's degree, and in 1993, his doctorate in chemical engineering. Dr. Dragičević was appointed as General Director of INA in March 2000. From June 2000, following implementation of the new Articles of Association, he became the President of the Management Board. Prior to his current appointment, Dr. Dragičević held several positions with INA, including Director of Strategic Planning and of the Research and Development Sector and as Executive Director of Refining. He joined INA in 1982, he was first employed at Petrokemija Kutina as Head of a Processing Unit. Since 1995 he has been a Fellow of the Croatian Academy of Science and Art, in Section IV, Petrochemistry.



ZALÁN BÁCS, Vice President of the Management Board and Executive Director of Finance Function

Zalan Bacs (41) was born in Hungary. In 1990 he graduated from the Chemical Engineering Faculty at Technical University of Budapest and Napier University Edinburgh where he earned his master's degree. He attended MBA London Business School and 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 Rumania in 1996 and from 1997 till 2000 he was Head of Resource Allocation at MOL. From 2000 till 2003 Mr. Bacs was Chief Controller of the MOL Group. For sometime he was Chief Financial Officer of the leading chemical company TVK, a member of the MOL Group. Before being the Vice President of the INA Management Board, he was a member of the Board and director of Corporate Services Function in INA.



MIRKO ZELIĆ, Member of the Board for Oil and Gas Exploration and Production

Mirko Zelić (72) 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 at Zagreb University (RGN Faculty) where he also earned his doctorate degree in 1982.

His working life commenced in 1964 at INA-Naftaplin, where he has held a number of managerial positions. He has been a full time professor at the Faculty of Mining, Geology and Petroleum Engineering and at the Faculty of Mechanical Engineering and Naval Architecture in Zagreb. He is the author of five books, over fifty scientific and professional papers, seven technical innovations and one patent in the field of petroleum. 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 Marketing

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



NIKO PAULINOVIĆ, Member of the Board and Executive Director of Retail Division a

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



TOMISLAV THÜR, Member of the Board and Director of Corporate Processes Function

Tomislav Thür (41) graduated from the Faculty of Law, University of Zagreb in 1991 and in 1998 he earned his master's degree at 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 a lawyer's office in Zagreb. From May 1992 till August 2001 he worked at the Croatian Embassies in Bern and Washington and joined the liaison Croatian Office with the European Community Observers Mission. He was head of the National Coordinator Office for the Security Pact. He earned executive management training at the London Business School, Harvard Business School and INSEAD.

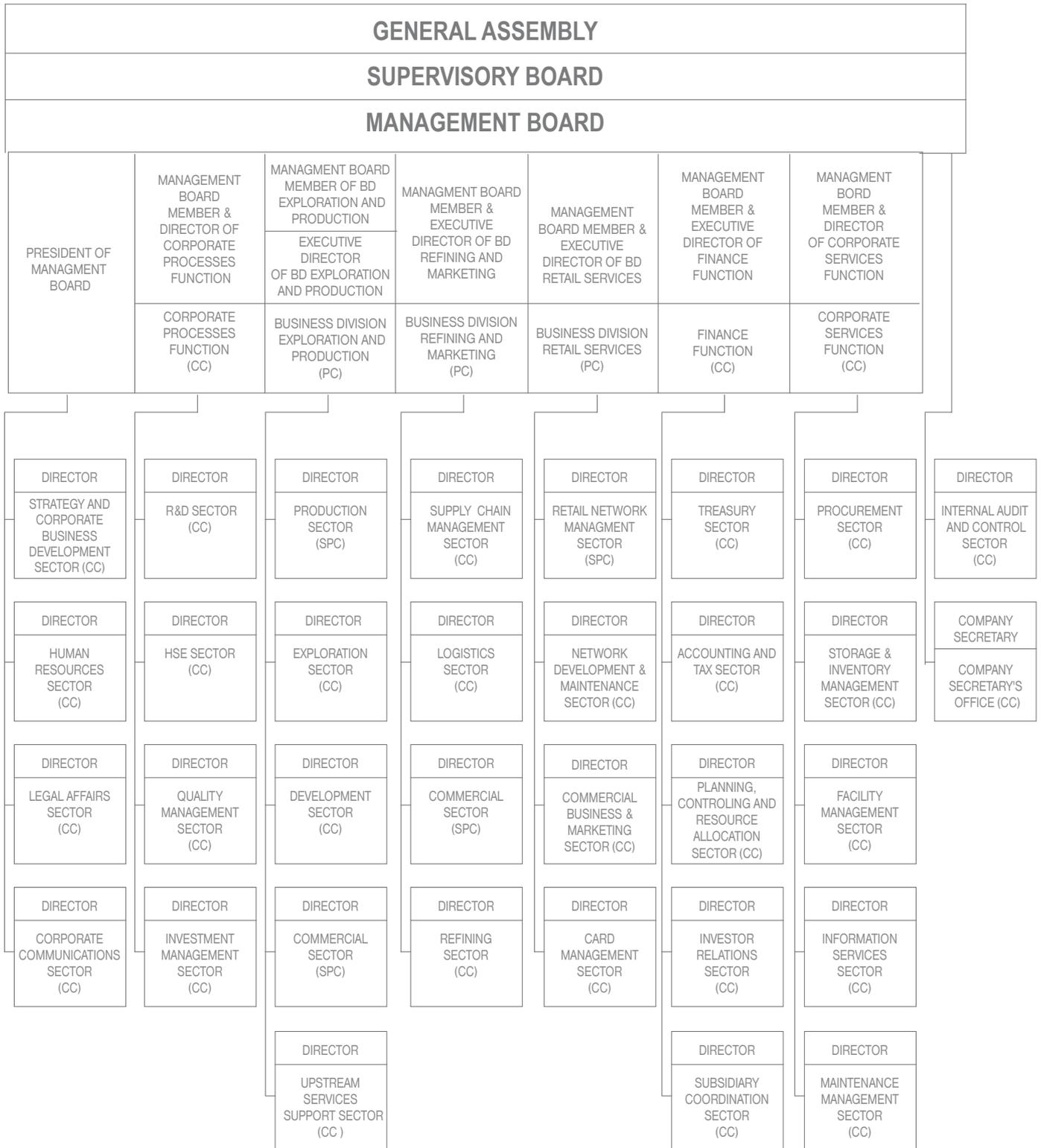


DARKO MARKOTIĆ, Member of the Management Board and Director of Corporate Services Function

Darko Markotić (36) is a member of the INA Management Board and Director of Corporate Services Function which systematizes the procurement sector, information services sector, facility management sector, maintenance management sector and storage and inventory management sector. He graduated from the Faculty of Law, Zagreb University, in 1998. In 2000 he joined INA d.d. as an intern in the Legal Affairs sector. In June 2002 he took the position of business secretary in the Office of the Member of the Management Board for coordinating the privatisation of INA d.d. At the end of 2003, he was promoted to Assistant to the Secretary of the company and in 2005 he was appointed Company Secretary and he held that position for three and a half years. On June 18, 2008 he was elected as a new member of the Board by the INA d.d. Supervisory Board.



SCHEME OF MACRO-ORGANIZATIONAL STRUCTURE



LETTER FROM THE PRESIDENT OF THE MANAGEMENT BOARD

The financial year 2008 was very turbulent and challenging for INA-Industrija nafte d.d. The first half of the year was marked by extremely high crude oil prices, accompanied by high prices of imported natural gas. In the second half of the year we witnessed a sharp decline in crude oil prices and a global economic downturn which had a significant impact on both developing and emerging markets.

In Croatia, the end of 2008 saw a slowdown in economic activities as a result of suffering from the same problems present worldwide.

Despite tough market conditions during the year, especially in the last quarter, INA increased revenues by 11 percent to HRK 28.8 billion.

However, INA's profits were reduced as a result of a number of circumstances, including the volatile sales prices of crude oil and oil products that continued to slide in the second half of the year, the negative differential between sale prices and import prices of natural gas as a result of the regulated domestic market, the effects of the unfavorable exchange rate between the US dollar and the Croatian kuna that caused losses, and the effects of a price cap on oil products at the time when crude prices were rocketing.

MOL INCREASED ITS SHARE IN INA

In the third quarter of 2008 there was another important event that changed the ownership structure of INA Group. On 2 September, the Hungarian oil and gas company MOL, which has been INA's strategic partner since 2003, announced a voluntary takeover offer for INA's shares that were not owned by the Croatian Government but held by various private investors. After the closing of the voluntary takeover offer on 17 October 2008, MOL increased its stake in INA from 25% plus one share to 47.16%, and thus became the largest shareholder in INA.

SEPARATION OF GAS STORAGE AND TRADING BUSINESS

In order to preserve its strong influence over the natural gas market and the supply of natural gas in Croatia, the

government considered separating the underground gas storage operations and natural gas trading activities from INA. Thus, the Government of the Republic of Croatia and MOL signed a Master Agreement on natural gas business on 30 January 2009. Based on the agreement, the government, or an entity wholly owned and designated by the government for this purpose, will take over the gas storage and gas trading activities of INA d.d. in 2009. Pursuant to its business strategy, INA d.d. shall maintain onshore and offshore exploration and natural gas production activities.

Since the gas trading activities are a major area of business, INA has presented the results that are related to this activity for the year 2008 as discontinued operations. The comparative profit and cash flows from the discontinued operations have been presented to include those operations classified as discontinued in the current period.

FINANCIAL RESULTS IN 2008

In 2008, the INA Group had HRK 1,310 million (USD 266 million) operating profits from continued operations, which was HRK 227 million less than the previous year. In addition to the above mentioned effect of higher crude oil and product prices, followed by the extreme decline in the second half, the financial result was negatively impacted through inventory revaluation of crude oil and re-



financed products in the amount of HRK 1,106 million. The appreciation of the US dollar and higher foreign currency indebtedness significantly contributed to the loss in financial activities in the amount of HRK 780 million. A price cap on refined products resulted in HRK 218 million in lost revenue, while lost revenue on regulated LPG prices was HRK 312 million, totaling HRK 530 million. Lower hydrocarbon production and sales of refined products reflected negatively on the result.

In the context of all operations in 2008, the INA Group recorded a loss of HRK 1,099 million for the year (compared to a net profit of HRK 869 million in 2007), out of which the loss on gas business (discontinued operations) was HRK 1,450 million.

Not including losses from discontinued activities, INA had a net profit of HRK 352 million.

As a result of the separation of the loss making gas trading business, INA will be able to focus on important development projects in exploration and production, refining, and marketing and retail operations.

EXPLORATION AND PRODUCTION OPERATIONS

INA is continuing intensive exploration and development activities onshore and offshore in Croatia. The joint discovery with MOL of the gas condensate field on

the Zalata prospect that extends on both sides of the Croatian – Hungarian border gave a new spur to exploration efforts in the Pannonian basin. The well Dravica-1 that was drilled on the Croatian side of the border confirmed gas-condensate accumulations. The cooperation with MOL also continued on the Novi Gradac - Potony project where extensive seismic surveys have been carried out.

Exploration activities in the Northern Adriatic, which are carried out jointly with the Italian company ENI, have resulted in the discovery of two additional gas reservoirs that were struck while drilling the IKA SW-1 and Božica wells. Further testing and development studies are to be carried out.

The development wells on the smaller fields, Ana, Vesna and Irina, were completed during 2008 and will be put into production in 2009.

INA ended the third and final exploration phase of the Hayan block in Syria, the most successful foreign concession in the history of the company. The 6th commercial discovery at the Mazrur-1ST well on the Hayan block was reported to the Syrian Ministry in April 2008. Currently, INA is producing oil from the Jihar and Jazal fields. However, due to the limited capacity of the existing OGS (oil and gas station) production is not in full swing. After completion of stage two of the project, when the new OGS will be installed, oil production will increase on the Jihar and Jazal fields, but it will also enable gas production from gas deposits discovered on the Jihar, Jazal



and Al Mahr fields. Currently, gas is produced at the Palmyra and Mustadira fields which are connected to the Arak gas station through a new 8" pipeline. Gas production will increase after completion of the third stage of the Hayan block project when a new gas treatment plant (GTP) will be constructed. The contract for the construction of the GTP, including the unit for LPG production, was contracted in 2008. According to the plans it should be completed in 2011.

Steady crude oil production continues at INA's concessions in Egypt and Angola.

During 2008, upstream capital expenditures increased by HRK 993 million to HRK 2,552 million and were earmarked mainly for the Northern Adriatic and Syrian projects.

REFINING AND MARKETING

Intensive investment activities were carried out within the scope of INA's most important project, the modernization of the two fuel refineries in Rijeka and Sisak. The implementation of the project is in progress. In the Sisak refinery two important units have been completed: the sulphur recovery unit, and a HDS FCC gasoline and construction permit has been issued for the isomerization unit. After completion of this unit the Sisak refinery will be able to produce Euro V grade gasoline.

In the Rijeka refinery, the isomerization unit was put into operation in March 2008. Construction works are in progress on the sulphur recovery unit, the HC/HDS unit and the hydrogen generation unit. According to the plans, in 2010 the Rijeka refinery will be able to produce diesel fuels in accordance with the most stringent European standards.

INA continues to maintain its strong market position in spite of the decline in market share in the domestic wholesale market from 78% to 73%, and in Bosnia and Herzegovina from 52% to 47%, compared with 2007 sales. The refinery modernization project is important because, upon completion, INA will be able to offer the markets products of higher standard and strengthen its competitiveness.

RETAIL SERVICES

INA operates an efficient and well distributed retail network consisting of 435 petrol stations in Croatia and 50 stations in neighboring Bosnia and Herzegovina and

Slovenia. In 2008 three new petrol stations were put into operation.

Total sales volumes increased by 13.1% (153,000 t), however when subsidiaries sales were extended, INA's Retail Services total sales volumes went up by 2% and the average throughput per site increased by 1.5% on the previous year.

The trend of increasing diesel fuel sales continues, and there has been a significant boost in the sale of auto-gas.

With further network optimization and quality services INA intends to maintain its strong market share and brand name.

PARTNERSHIP WITH MOL

Since MOL's acquisition of 25% plus one share of INA in 2003 the partners have expanded their cooperation in many areas.

In 2008, INA and MOL continued to work on two important exploration projects: the Zalata (Hungary) and Podravska Slatina (Croatia) prospect; and the Potony – Novi Gradac prospect. The partners are jointly evaluating the international upstream business opportunities for possible cooperation on international projects.

MOL is providing full support and transfer of knowledge to INA in regard to the refinery modernization project.

In the area of retail network development, the partners started to work toward consolidation of a marketing strategy for the South East European region, including the review of retail positions in the region. At the beginning



of February 2009, MOL put two new sites into operation near the Croatian border in Hungary under the INA brand name.

The partners are also working together on the consolidation of Energopetrol in Sarajevo (67% stake) which was acquired by the INA/MOL consortium in 2006.

Following the voluntary takeover offer made in October 2008, MOL has acquired a 47.16% stake in INA. This important change calls for changes in the Shareholders Agreement between the Croatian Government and MOL.

It is likely that in 2009 we shall see further organizational changes.

OUTLOOK FOR 2009

The financial year 2008 was marked by a global economic downturn, a steep rise, and then a slump in crude oil prices. Oil industries all over the world faced difficulties and drops in performance. INA's results are not as good as in previous years, but all the same we have made important investments in oil and gas exploration and development which will ensure the replacement of current production and ensure the modernization of re-

fineries that will be able to produce derivatives according to European standards.

According to projections, the year 2009 will not be an easy one, but we have created a base that will ensure the further growth of our businesses.

I would like to thank all of INA's employees for their contribution to the development of the company.



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

MISSION

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

CORE VALUES

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

Benefits for the Owner

Achieving the profitability and value creation its share – holders 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 the realisation of INA's corporate goals.



HEALTH, SAFETY AND ENVIRONMENT

Health, Safety and Environment Sector is a centrally organized sector of INA d.d., responsible for the area of environmental and occupational health protection. The key responsibility of the sector is to establish a single model of occupational health and environmental protection management, including the definition of a common policy, strategy and goals and implementation of a common set of rules, while observing all the legal and other requirements. The sector has been cooperating with other organizational units within INA d.d. that share the same responsibilities and can make or have the potential to make a relevant impact on the environment. The HSE Sector at INA d.d. focuses on information exchange and communication within INA d.d., as well as with all the other stakeholders, from state institutions to customers and local communities. The sector also focuses on the development of awareness and training of its employees in the areas of occupational health, safety and environmental protection.

ENVIRONMENTAL PROTECTION

Just as is the case with every other oil company in the world, the activities of INA d.d. include exploration and production, processing, storing and selling of oil, oil derivatives and gas, which can all have a considerable impact on the environment. This is why we monitor and measure at all the relevant locations and in accordance with legal requirements and best practices, the key environmental indicators, including emissions into the air and water, management of hazardous and non-hazardous industrial waste, accidents with environmental

impacts and the like. Our goal is to minimize the environmental impact and that is why we have been carrying out numerous activities and projects that are either directly or indirectly related to environmental protection.

In 2008, our main goal was to harmonize the legislation in the Republic of Croatia with the EU *acquis communautaire* in the area of environment.

Among the numerous regulations passed in the course of 2008, we list a few that have had a considerable impact on the company's operations:

Regulation on quotas for greenhouse gas emissions and the method of emission allowance trading (Official gazette no. 142/08), according to which the emission trading system includes the Rijeka and Sisak refineries, and the Etan and Molve plants; Regulation on the procedure for establishing integrated environmental requirements (Official gazette no. 114/08) that is derived from the IPPC Directive; and Regulation on the prevention of major accidents involving dangerous substances (Official gazette no. 114/08) derived from the SEVESO II Directive.

In the course of 2008, the Sisak Oil Refinery put a lot of effort into upgrading and resolving technological question, which resulted in improved air quality in the refinery environment, so that we can expect the air quality category for 2008 to be 1st class in terms of sulphur dioxide (SO₂) and benzene.

As part of the 2008 activities on the Sisak refinery modernization project, the HDS FCC gasoline plant was completed and the trial run was started (Hydrodesulphurization of FCC gasoline). The reconstruction of the central chimney was also



completed, and the automated air quality monitoring station Sisak-1 started regular operations on 1 May 2008. As part of the revitalization of the storing capacity, reconstruction of the oil derivatives tanks was started, aimed at reducing evaporation losses and protecting air quality.

The Sisak Refinery reduced the use of raw water by 15.95 % in 2008, and drinking water by 10.81 % compared to 2007. Outflows of processed water were also reduced by 19.61 %.

The Rijeka Refinery (Urinj site) undertook many measures to reduce the negative environmental impact. The biological treatment of waste water was started and this has considerably increased the quality of water outflows from the waste water processing plant.

The 6000 meters of sewage pipelines were renovated in 2008 as planned and contracted.

The Rijeka Refinery (Mlaka site) stopped production of base oils, bitumen, fuel oils and paraffin in October 2008 as part of the effort to restructure operations and eliminate harmful emissions. The move resulted in considerable improvements in the environmental air quality.

The 2008 environmental protection activities in the Oil and Gas Exploration and Production business segment included the completion of the Beničanci waste fluid collection basin revitalization project. At the Stružec plant, the project related to the landfill for solidificates treated by electrochemical remediation is nearing completion and it is the first project in Croatia that applies this technology.

The implementation of the EOR project is under way, in which 450,000 tons of carbon dioxide (CO₂) will be treated from the CPS Molve by injection into the Ivanić and Žutica field reservoirs, with a number of resulting benefits that are economic, social and environmental. Construction of the compressing unit at the CPS Molve, and testing of pipelines and wells at the Ivanić and Žutica fields, are activities performed within the project.

Unforeseen events with environmental impact

In the course of 2008, INA d.d. recorded 13 unforeseen events with considerable environmental impacts, which was actually 3 events less than in the previous year.

The most frequent causes were leaking pipelines due to obsolescence and corrosion, but also the breakdown of processing units and product spills.

HEALTH PROTECTION AND OCCUPATIONAL SAFETY

The oil industry requires a high degree of health protection and safety at work, so these are among the top priorities and basic prerequisites for the successful operation of any oil company. INA d.d. has therefore set up an all-encompassing system of managing occupational health and safety at work, with the aim to continuously improve the level of safety and regularly monitor the status of employee health.

Special attention is paid to adequate employee training, so that they know how to work in a safe manner and are able to minimize the risks related to their daily work activities.

Just as is the case in other areas of business operations, a number of new laws came into force in the year 2008, as the Republic of Croatia continued to harmonize its legislation in the area of occupational health and safety with European standards.

Among the important laws and regulations passed in 2008 are the Act on Amendments to the Safety at Work Act (Official Gazette no. 86/08) and the Ordinance on Storage Area Fire Protection (Official Gazette no. 93/08). Following the adoption of these laws, INA d.d. started passing internal regulations transposing these laws into the company's internal documents to be applied in operations.

In addition to the regulations, we have also been applying the oil industry's best practice in all the areas of our operations, especially related to management and monitoring of hazards to occupational health and safety.

Developing employee capabilities for safe work operations includes, in addition to ongoing training, regular training in basic firefighting, specialist training for sales assistants at petrol stations, assessment of hazards related to the work place and carrying out fire prevention drills.

Health protection is implemented through medical check-ups and constant health monitoring of employees in working environments that have special requirements.

In 2008, we recorded an increase in the number of injuries at work compared to 2007, with the total number reaching 156 injuries, mostly minor ones, although we recorded one case with a lethal outcome.

The increase in the number of injuries at work is mostly due to the increased number of armed robberies at petrol stations.

No occupational health cases were recorded.

INA d.d. is an oil company, and, due to its core and non-core activities, it has to pay proper attention to fire protection through the implementation of its yearly fire protection plan of activities.

In 2008, there were fire fighting drills and professional training sessions organized all through the month of May, and the current situation was analyzed in order to define priorities that will make it possible to upgrade the system of protection against fire and technology-caused explosions. The final fire protection drill was organized at the Sisak Oil Refinery.

QUALITY MANAGEMENT

INA d.d. has aimed to act in accordance with international standards of quality management ever since they were first introduced. The number of certificates awarded by accredited independent bodies to the core company processes provide evidence that our operations are aligned with the requirements of the ISO 9001 standard. At the beginning of 2000, the company's Management Board decided to change its management philosophy. It implemented a single business management system, an integrated operations management system, based on the company's rules, the legal framework, professional standards, and the requirements of ISO 9001, ISO 14001 and OHSAS 18001 standards among other standards related to business decision making. Since 2005, we have been strengthening this integrated quality management system through certification and recertification three years later. The business policy introduced by the INA d.d. Management Board required the development of an information security management system in 2007, and the implementation of HACCP (Hazard Analysis and Critical Control Points) in the company's catering facilities in 2008, in accordance with legal requirements. We have been actively participating in the development of these systems and in their full integration into the existing operations management system.

Integration of the operations management system has enabled us to achieve better transparency in managing the system, in measuring and presenting business results, and in the level of satisfaction of buyers and employees.

The company's decision to continuously improve its business processes and operational quality resulted in the introduction of SAP in 2006. This resulted in the harmonisation of all company documents with the redesigned SAP processes and continued work on the INA d.d. process model project with the use of the ARIS tool.

The high level of customer loyalty and satisfaction with our products and services confirms that our system of quality management is suitable and performs as planned.

Standardization and metrology

INA d.d. has been developing and improving the system of internal standardization for many years with the aim of establishing a single set of corporate standards. INA's standards define the specific features of product and raw material quality, the elements of the company's visual identity, the rules and standards in the area of business communication and standards of identification characteristics.

The standards policy and the metrology policy define the guidelines for defining INA's standards and for transposing international quality requirements and European standards into INA's standards and metrology programmes based on the principles of sustainable development.

We participate in the definition and adoption of standards by the government administration bodies of the Republic of Croatia in areas of interest to INA d.d., by proposing and harmonizing regulations with the documents in force in the EU, for the purpose of protecting and promoting the interests of the oil and gas industry on domestic and other markets where we do business, while respecting the interests of all the stakeholders.

In the second half of 2008, INA d.d. started preparations for the pre-registration of substances in accordance with the provisions of the REACH regulation (registration, evaluation, authorization and restriction of chemicals) in force in the EU and applicable to all companies headquartered outside the EU that export their products (chemicals) to the EU. Since INA d.d. does not have the authority to perform pre-registration but has to have it done on its behalf by a company headquartered in the EU, the company MOL was selected as the single representative of the company. By the pre-registration due date (1 December 2008), INA d.d. pre-registered the substances that it produces and intends to produce before 30 November 2010. The buyers of our products in the EU have been informed of the pre-registration of our products, so their sale can continue to proceed without obstacle after 1 December 2008.

PROTECTION OF INTELLECTUAL PROPERTY

INA d.d. has created and developed the entire process of intellectual property management with a clear definition of authority, responsibility and all activities ranging from idea generation to production, from marketing and sales to intellectual property protection.

In order to protect the INA d.d. identity, we ensure the protection and maintenance of patents and trade marks, products, the visual identity of petrol stations and all other sales and service locations (by protecting brands and industrial design). In accordance with INA's Intellectual property management strategy, we provide protection both in Croatia and in foreign markets where we are or intend to be present.

By raising awareness of the fact that knowledge, creativity, innovativeness and intellectual property lead to continuing company development, we have developed the tradition of nurturing the inventiveness and creativity of our employees, resulting in innovation and in company intellectual property that can be protected. The level of innovativeness at INA d.d. is shown by our many years of participation in exhibitions of inventions and innovations. Of the 13 INA exhibits at INOVA 2008, 10 were awarded: 6 gold, 2 silver and 2 bronze awards; INA received the special award for the best company.

Our goal is to use the process of intellectual property management to promote the need and importance of knowledge at both the company and individual employee levels. Employee knowledge is a basic resource, so we aim to manage it effectively in order to enhance our competitiveness. The guidelines for managing corporate knowledge include an open and communicative corporate culture, a focus on core activities, support for creativity and the transformation of employee knowledge into a form the company can make use of. This was the goal behind setting up the Company Knowledge Base, which is accessible to all the users of INA-Intranet.

The protection of intellectual property is as successful as its supervision; the successful supervision of the company's identity/technology is a pre-condition for successful protection. We are therefore constantly monitoring the market in order to prevent possible infringement of the protected intellectual property rights of INA d.d.

The introduction of a centralized system of intellectual property management, run by INA d.d., has created the basis for the intellectual property management of all the subsidiary companies in the INA Group. It enables us to implement consistent and efficient intellectual property rights protection at the level of the INA Group and to take adequate measures in case of infringements of such rights, bringing us to the level of protection efficiency required by the current market environment.



CORPORATE SOCIAL RESPONSIBILITY

The purpose of the activities performed at INA d.d. is not only to earn profit but also to create value for the community, respecting people and the environment. INA d.d. has been developing mutual trust and common values in cooperation with all its stakeholders, fostering joint effort and good cooperation.

INA d.d. is a member of Global Compact, the largest network for socially responsible business operations in the world. By adhering to the 10 principles of Global Compact in doing business, INA has been supporting and promoting fundamental social values in the area of human rights, labour rights, environment protection and the fight against corruption.

Last year, INA d.d. marked the 60th anniversary of the United Nations' Declaration of Human Rights and used its own media to inform the employees about the content of the Declaration, which was adopted in 1948.

The company code of business behaviour and ethics provides the guidelines to follow in daily work when dealing with colleagues and business partners, occupational health and safety at work, environment protection, respect for law and customs, recognizing conflict of interest and supervision mechanisms.

The basic principles of corporate governance at INA d.d. encompass transparency of operations defined by means of clear procedures to be followed by the Supervisory Board, the Management Board and all the other decision-making bodies and structures, and by means of efficient internal control systems and clearly defined responsibilities.

Business success is founded on employees who are ready to take on new challenges in their work for the company and who are willing to continue acquiring new knowledge and skills as required by work operations. This ensures a high level of development and usage of our human resources, which are our most important resources and the key source of our competitive advantage.

Three trade union organizations are active at INA d.d.: INAŠ – The Trade Union of INA Employees, SING – The Trade Union of Oil Industry, and EKN – The Autonomous Trade Union of Workers in the Power, Chemistry and Non-metal

Industries of Croatia. All three trade unions participate in collective bargaining and in monitoring changes to the Collective Agreement.

INA d.d. has been supplying energy products and lubricants for more than 40 years, both to households and businesses in Croatia and abroad. The company adapts to the specific needs of local communities. The tradition of financing the infrastructure has been built over several decades, and this activity is especially important at the local level in Croatia, in communities where INA d.d. has carried out oil and gas exploration and production activities. Funding has been provided to build schools, hospitals, healthcare units and holiday facilities. INA d.d. has continued to play its traditional role in these communities and in their humanitarian, cultural, educational, sports, ecological, healthcare and scientific projects by providing donations and sponsorships and by investing in not-for-profit activities that contribute to the overall quality of life.

INA d.d. has set up and maintained the tradition of the INA Annual Award for promoting Croatian culture in the world.

INA d.d. participates in the process of providing “top scholarships” to the best university students and has opened its doors to numerous secondary school and university students from Croatia and other countries, who gain new experience when working at INA during their summer holidays.

We have developed good quality relationships with foreign vendors of oil and gas, lubricants, liquefied petroleum gas and consumer goods, as well as with the suppliers of other goods and services needed in our operations.

In order to operate in a socially responsible way, we pay special attention to having a quality dialogue with our stakeholders. INA d.d. was among the first companies in Croatia to open a toll-free telephone line in order to encourage direct communication with buyers and the general public. This service was introduced in 1997. In addition to the telephone, our customers can also reach us via our web-page, e-mail or letter or by visiting us in person.

Every year, INA d.d. informs all the stakeholders on a regular basis about its advancement in the area of social responsibility. INA d.d. is a member of the global communication network Communication on Progress.



BUSINESS SEGMENTS



EXPLORATION AND PRODUCTION OF OIL AND GAS

EXPLORATION OPERATIONS

In 2008, INA's exploration activities were marked by new discoveries of gas in the domestic exploration areas. Two new fields were discovered in the Northern Adriatic: Ika SW and Božica. In the Pannonian basin the discovery of the gas-condensate field has been confirmed in the area of Zalata – Dravica, which extends on both sides of the Hungarian - Croatian border. The exploration activities in INA's concessions abroad were marked by the completion of the 10-year exploration operations at the Hayan block in Syria, as well as by the signing of a new contract for the exploration of the Moghan 2 block in Iran.

On the newly discovered Ika SW and Božica gas fields in the Northern Adriatic, two wells were drilled: Ika SW-1 dir and Božica-1. New commercial reserves of gas were detected in both wells. Of particular interest was the discovery of a series of thin layers of gas accumulations that range from a few centimetres to a few meters, explored by drilling of the Ika SW-1 dir

directional well, which could hardly be discovered and put into production without new technologies. The other well, Božica-1, discovered the so called bright spot, or a new satellite field within the larger Ivana field.

A new spur to the exploration efforts in the Pannonian basin followed the discovery of the gas condensate field at the Zalata structure in the border area between Croatia and Hungary. By the end of 2008 INA had drilled the exploration well Dravica-1 which confirmed gas-condensate accumulations at two intervals of the Koprivnica sandstone deposits, but also Middle Miocene carbonate breccias of the Moslavačka Gora formations. Reservoir modelling of the field is in progress.

At the East Yidma concession in Egypt, the drilling of the new well, Rizk-1, is in progress. According to well log data, there are indications of significant oil reserves which need to be confirmed by further exploration. At the Aphia block in Syria, drilling of the Mudawara-2 well confirmed oil and gas deposits in Kurrachine Dolomite formation.

EXPLORATION ABROAD

SYRIA

Hayan Block (Operator INA: 100%)

The third and final exploration phase of the most successful foreign concession in INA's history expired on 12 September 2007. The latest oil and gas field was discovered by drilling the Mazrur-1ST well. The well was completed in November 2007 and production testing continued until 26 January 2008. Wellhead flow through 7.9 mm production choke was $Q_{oil} = 160 \text{ m}^3/\text{day}$; $Q_{gas} = 70,000 \text{ m}^3/\text{day}$. Upon completion of testing, a Notice of Commercial Discovery (NOCD) at the Mazrur field was submitted to the Syrian Ministry. The NOCD was approved in April 2008 and the development of the field will proceed.

Aphia Block (Operator INA 100%)

The first exploration phase, which lasted for four years, ended in June 2008. Contract obligations were fulfilled with the acquisition of 504 km of 2D seismic (in 2005) and the drilling of the exploration well Jaddua-1 (in 2006). The well was abandoned as a dry hole. A second exploration well, Mudawara-2, was drilled in the period from February to June 2008

to a total depth of 3150 m. Production testing determined both oil and gas saturated C2 reservoirs of Kurrachine Dolomite formation (gas flow at a rate of $125,000 \text{ m}^3/\text{day}$).

The second exploration phase of the Mudawara prospect commenced in August 2008. The planned duration is two years and there is an obligation to drill two exploration wells and perform seismic surveys. In October 2008, INA commenced acquisition of 3D seismic of 270 km^2 in order to



more precisely define the potentials of this prospect. It was completed on 15 January 2009.

EGYPT

Exploration operations in Egypt were carried out at two exploration blocks: East Yidma and East Kalabsha, while the Ras El Ush block was abandoned on 18 January 2008.

East Yidma Block – Western Desert

Operator: INA 50% share
Partner: RWE-DEA 50%

The operations at this block were extended in September 2008 after expiry of the second phase in order to fulfil contract obligations that included the drilling of two wells.

During 2007 and 2008, exploration activities were interrupted on several occasions by the Egyptian army. The acquisition of 3D seismic of 1,587.5 km² was completed on 2 March 2008 and the location of the Raheim-1ST well was identified based on preliminary interpretation. This well did not prove commercial reserves and was abandoned.

Drilling of the second exploration well, Rizk-1, started on 15 November 2008 and is still in progress. At the depth of 3,353 m, gas shows were detected in Baharya and Kharita formations. However, further testing and logging must be done to confirm this potential prospect. Exploratory drilling is expected to be completed in February 2009.

East Kalabsha Block – West desert

Operator: IEOC 50%
Partners: INA 25%
RWE-Dea 25%

Exploration activities at this block started in May 2005 and the 3-year work commitments included 3 exploration wells

and 2D/3D seismic survey. In 2007, 516 km² of 3D seismic was acquired on the 'East Kalabsha A' prospect and 395 km² of 2D/3D seismic on the 'South Maleiha' prospect. The locations of three exploration wells were identified on the basis of the acquired data. In the first half of 2008, the Fennec-1, Serb-1 and Palm-1 wells were drilled. Unfortunately, no commercial reserves were discovered. After the expiration of the first exploration phase in May 2008, the partners requested a 6-month extension in order to perform the reinterpretation of the data and review the geological potential of the block. It was determined that the mentioned exploration wells were located in a classic Cretaceous play, while prospective targets were located in deeper Jurassic and Paleozoic reservoirs. Namely, on the adjacent concessions significant volumes of oil and gas have been recently discovered from these deposits. Consequently, the partners decided to enter into the second, 2-year exploration phase with contractual obligations including 4 exploration wells. It is expected that this second phase will last from 26 November 2008 to 25 May 2010.

Ras El Ush Block – Suez Bay

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

During the contract period, two exploration wells were drilled, but unfortunately without commercial discovery. After expiration of the second exploration phase (18 January 2008) the block was abandoned.

NAMIBIA Zaris Block

Operator: INA 100%

The agreement regarding the exploration of the Zaris Block was signed in November 2005. INA's obligation under the



agreement includes 2D seismic survey of 500 km. Due to some problems in contracting seismic surveys and later during the seismic acquisition, INA requested a two year extension of this first exploration phase. The extension was approved without new contractual obligations. Seismic surveys were completed in March 2008. After interpretation, two prospects were delineated and geological projects were prepared for exploration drilling.

ANGOLA Block 3/05A

Operator: Sonangol 25%
Partner: INA 4%

The exploration agreement for this offshore block in Angola was signed in July 2005. Minimum obligations under the first three years of the exploration phase include the drilling of one exploration well. From August to November 2007, 3D seismic was done of 2,290 km² and PGS performed interpretation. According to the plan, the appraisal well Punja-4 should have been drilled in 2008, however, due to a short-

age of drilling rigs, the works were postponed until April 2009. The obligations of the first phase were transferred to the second phase, which includes drilling of one additional exploration well to be located based on 3D interpretation.

IRAN Moghan 2 Block

Operator: INA 100%

Exploration service agreement for the exploration and development of the Moghan 2 block in Iran came into effect on 1 June 2008. This block is located in the Caspian region in the northern part of Iran near the border with Azerbaijan and extends over a surface of 3,230 km². The minimum contract obligation includes seismic surveys and drilling of one exploration well. In the second half of 2008, INA established a business unit in Teheran. All available data for the block were collected and a geological study was prepared. A proposed programme of 2D surveys to be performed during 2009 was prepared on the basis of this study.

EXPLORATION IN CROATIA

PANNONIAN BASIN Project Zalata – Podravska Slatina (INA 50%, MOL 50%)

Within the scope of INA-MOL cooperation and the evaluation of the Podravska Slatina – Zalata prospect that extends on both sides of the border area between Hungary and Croatia, on 11 September 2008, INA commenced drilling of the exploration well Dravica-1 on the Croatian side of the Zalata structure. The final depth of 3,500 m was reached on 29 December 2008. Exploration drilling indicated significant shows of hydrocarbons in two intervals within Koprivnica sandstones and within carbonate breccias of the Moslavačka Gora formation. This finding confirms the distribution of gas and condensate reservoirs discovered as a result of the Zalata-1 well. During DST-2 measurements within the Moslavačka Gora formation (3,167-3,121 m), gas flow was 117,000 m³/day and possessed excellent permeability properties. In 2009, hydrodynamic testing is to be performed in three groups of intervals in order to determine the production potential of the reservoirs.

Project Novi Gradac – Potony (INA 50%, MOL 50%)

Successful cooperation between the partners INA and MOL continued on the Novi Gradac – Potony prospect. Acquisition of 3D seismic on 189 km² started on 26 October 2007 and was completed in February 2008. Seismic surveys



were performed by the Hungarian company Geophysical Services Ltd. That was followed by the interpretation of the acquired data and review of all 3D data obtained in the surrounding areas. This exercise provided a unique picture of the overall underground of the region. Based on seismic results, a location for the drilling of an exploration well was selected in Hungary, but it is located in a nature park where drilling is not allowed. Delineation of a new possible location is in the process.

NORTHERN ADRIATIC

Exploration and development operations in the Northern Adriatic have been carried out by way of joint ventures with foreign partners. The exploration of the Ivona block has been carried out with the Italian company ENI through the joint venture operating company INAGIP. The Izbala and Ivona blocks have been explored jointly by INA and Edison Gas through the joint venture operating company EDINA.

Ivona Block (Operator INAGIP)

On the basis of re-evaluation of the remaining Ivona block potentials, two new prospects were identified: IKA SW and Božica. The IKA SW-1 dir exploration well was drilled in the first half of 2008. A series of thin layers of gas accumulations were discovered. The total well depth is 1,704 m. The well discovered gas saturation at several intervals. For the drilling of the exploration well IKA SW-1, INA and its joint venture partner ENI applied new technology without which it would have been impossible to successfully complete this exploration stage and, eventually, put this well into production. According to estimates, this find will render considerable gas reserves. The preparation of development studies is in progress.

This discovery is of great importance because it provides a new exploration concept on the basis of which new exploration wells will be identified.

After the IKA SW-1 well, the second exploration well, Božica-1, was drilled at the end of 2008. The Božica prospect was discovered as a classic "bright spot" seismic anomaly on 3D seismic. Exploratory drilling confirmed gas saturation in Carolla formation sands. The total depth of the well is 920 m. Significant gas shows were registered at the 733.5 - 856 m interval.

The preparation of development studies is in progress.

Ivona Block (Operator EDINA)

The agreement on exploration of the Ivona block in the Northern Adriatic concession area was signed between INA and Edison Gas in December 2005. The first exploration phase lasted three years and included seismic acquisition obligations. Activities were carried out by the joint venture company EDINA, while all costs in the exploration phase were covered by Edison Gas. The acquisition of 2D seismic in a high density grid was performed on 1,866 km and ended in mid 2007. After interpretation of the results it was decided that EDINA would not enter into the second exploration phase and the block has been relinquished as non-perspective.



DEVELOPMENT OPERATIONS

CROATIA

Pannonian basin

During 2008, INA carried out workover operations on the existing production wells in order to enhance their recovery. The works on the fields: Žutica, Crnac, Lipovljani, Privlaka, Đeletovci, Stružec, Šandrovac, Lupoglav, Obod, Legrad, Jamarica, Okoli, Bilogora and Kloštar resulted in the additional production of 100 m³/day of oil, 13 m³/day of gas condensate and 456,000 m³/day of gas. These activities make up part of the continued revitalization of domestic fields which involves detailed analyses, surveys and the application of new technology and reinterpretation of reservoir data so as to enable production of new reserves and the extraction of existing reserves that were not recoverable.

Adriatic offshore fields

The development well IKA-B3 Dir was completed at the Ika pool B, and after its connection to the existing production system in January 2008 it rendered daily production of 40,000 m³/day of gas.

On the gas fields Ana, Vesna and Irina, the following development wells were drilled: Ana-2 Dir, Ana-3 Dir, Vesna-2 and Irina-1 Dir. Production testing resulted in total production of about 373,000 m³/day of gas.

In the second half of 2008, a rig structure was laid on the Croatian part of the Annamaria gas field extending across the Adriatic Sea median line between Italy and Croatia. The field will be developed and simultaneously put into production jointly by ENI and INA. Drilling rigs were moved to respective sites by the end of 2008 and drilling of the six development wells commenced.

Construction of the two production platforms for the development of the Izabela field (operated by EDINA) began in the fourth quarter of 2008. The Izabela-south platform will be constructed in Ravenna and the Izabela-north platform in Rijeka.

CONCESSIONS ABROAD

Angola

During 2008, oil was being produced on Block 3, which includes three contract areas: Block 3/05, Block 3/85 and Block 3/91. As these are offshore blocks, the volume of crude oil representing INA's share (4% on Block 3/05 and 5% on Blocks 3/85 and 3/91) is accumulated and shipped once a year.

Block 3/05

This contract area covers production from 6 offshore oil fields: Pacassa, Palanca, Impala, Impala SE, Bufalo and Pambi 3/05. The operator is Sonangol.

Among major investments on this block was the drilling of the Pacassa-415 well. Other minor operations included well workover, overhaul of the terminal facilities, regular interventions on the wells for maintaining production levels, the laying of new pipeline sections and repairing existing pipelines, undersea inspection of the platforms, and the maintenance of water pumps.

Block 3/85

This contract area covers production from the 2 offshore fields: Pambi 3/85 and Cobo. According to the plans, necessary works have been performed on production platforms, including regular interventions on the wells for maintaining production levels, the laying of new pipeline sections and repairing the existing pipelines, and the undersea inspection of the platforms.

Block 3/91

This contract area covers production from one offshore oil field: Oombo. During 2008, capital workover of the Oombo-102B well was performed with a significant increase in production. The other works included terminal overhaul, the laying of new pipeline sections and repairing the existing ones, and the undersea inspection of the platforms.

EGYPT

East Yidma concession, Sidi Rahman Development Lease

On this concession INA is the operator and has a 50 per cent share in capital expenditures. The Sidi Rahman-1 well is in production.

During 2008, drilling and workover operations were performed on the Drazia-1 well, but commercial reserves of hydrocarbons were not found and the well was abandoned.

By the end of 2008 drilling of the Sidi Rahman-2 well commenced. Field development and oil production are being carried out by the company Marina Petroleum.

Ras Qattara concession

The operator is IEOC. In 2008, five development wells were put into production while two wells were drilled as water injection wells. In the two fields in this concession, a total of 61 wells are in production. SIGMA system operations were

carried out on surface installations. Field development and oil production are being carried out by the company Ras Qattara.

West Abu Gharadig concession

The operator is IEOC. During 2008, six new development wells were drilled and put into production. In total, 30 wells are in production in the two fields in this concession, as of the end of 2008.

Field development and oil production are being carried out by the company Rampetco.

North Bahariya concession

The operator is Sipeptrol. In the four fields in this concession there are 15 production wells.

Field development and oil production are being carried out by the company Norpetco.

SYRIA

Hayan Block

INA is the operator and has a 100 percent share in capital expenditures of the Hayan Block. Development operations and oil and gas production are being performed by the Hayan Petroleum Company. The following fields were in production: oil-gas field Jihar (two wells), oil field Jazal (one well), gas field Palmyra (two wells) and gas-condensate field Mustadira (one well).

Jihar field

The Jihar-3 well, which had to be equipped as an injection well, has been temporarily abandoned. In May 2008, the well Jihar-5 was successfully turned into an injection well. Drilling of the well Jihar-8 was completed in February 2008 but it will be put into production upon completion of Stage 2 of the Jihar project (new OGS), which is planned in 2009. The preparation of the Jihar Field Reservoir Study and Addendum 1 of the study was completed in 2008.

Jihar Project

The scope of the Jihar project includes the construction and installation of surface equipment, plants and pipelines that will provide technological solutions for gathering and separation of oil and gas (OGS) in Stage 2, and the construction of a gas treatment plant that includes a LPG production unit in Stage 3. Completion of this project will enable full production of oil and gas from the Jihar, Jazal, and Al Mahr fields. The EPC contract for the project was signed in the first half of 2008. The contractor for the execution of works in Stage 2 is STSI (INA's subsidiary) and the company Petrofac is the contractor for Stage 3.

Palmyra field

A new 8" pipeline that connects the Mustadira and Palmyra fields with the Arak – Syrian gas station was put into operation in February 2008 and enabled the full production of these fields. A sedimentary model of the wider area around the Palmyra field was also completed.

Mustadira field

The Mustadira field was put into production in February 2008 by putting the Mustadira-1 well on stream. Drilling of the Mustadira-2 well finished in March. The well did not render a satisfactory flow of hydrocarbons and its current status is "temporarily abandoned". During acquisition and interpretation of 3D seismic on the Mustadira field, 1,175 shallow seismic wells were drilled. A development plan is being prepared.

Mazrur field

A production test was run on the Mazrur-1ST well and achieved excellent indicators. The Notice of Commercial Discovery was submitted to the Syrian Ministry and approved in April 2008. A development plan is being prepared.

Jazal field

Drilling of the Jazal-2 well was completed, however, no commercial reserves were found and the well was abandoned. Drilling of the Jazal-3 well began in October 2008.

Al Mahr field

Drilling of the Al Mahr-3 well began in September 2008.

OIL AND GAS RESERVES AS OF 31 DECEMBER 2008

Croatia

	Unit	Proved	Proved +probable	Proved +probable + possible
Oil	10 ³ m ³	9,263	12,029	13,452
Condensate	10 ³ m ³	2,399	2,447	2,447
Total (oil+condensate)	10³ m³	11,662	14,476	15,899
Associated gas + gas cap	10 ⁶ m ³	2,154	3,823	3,830
Free gas - onshore	10 ⁶ m ³	14,961	15,154	15,154
Free gas - Adriatic offshore	10 ⁶ m ³	11,422	16,502	20,523
Total gas	10⁶ m³	28,536	35,479	39,507
OE	10³ m³	38,332	47,634	52,822

	Unit	Proved	Proved +probable	Proved +probable + possible
	10 ³ bbl	58,257	75,652	84,601
	10 ³ bbl	15,087	15,392	15,392
	10³ bbl	73,344	91,044	99,994
	10 ⁶ bbl	13,547	24,043	24,089
	10 ⁶ bbl	94,094	95,308	95,308
	10 ⁶ bbl	71,834	103,786	129,074
	10⁶ bbl	179,475	223,136	248,470
	10³ boe	241,079	299,586	332,211

Other countries

	Unit	Proved	Proved +probable	Proved +probable + possible
Oil	10 ³ m ³	1,637	2,470	2,801
Gas	10 ⁶ m ³	559	9,099	9,535
Condensate	10 ³ m ³	5	2,132	2,132
OE	10³ m³	2,163	13,106	13,844

	Unit	Proved	Proved +probable	Proved +probable + possible
	10 ³ bbl	10,294	15,533	17,617
	10 ⁶ bbl	3,513	57,228	59,968
	10 ³ bbl	30	13,408	13,408
	10³ boe	13,607	82,425	87,069

TOTAL

	Unit	Proved	Proved +probable	Proved +probable + possible
Oil	10 ³ m ³	10,900	14,498	16,253
Gas	10 ⁶ m ³	29,095	44,578	49,042
Condensate	10 ³ m ³	2,404	4,579	4,579
OE	10³ m³	40,495	60,740	66,666

	Unit	Proved	Proved +probable	Proved +probable + possible
	10 ³ bbl	68,550	91,185	102,218
	10 ⁶ bbl	182,987	280,364	308,438
	10 ³ bbl	15,118	28,800	28,800
	10³ boe	254,686	382,011	419,280

1000 m³ of gas = 0.93459 m³ OE

Audit of reserves was performed by Senergy Ltd. Aberdeen, Scotland

OIL AND GAS PRODUCTION IN 2008

In 2008, INA produced 1.09 million tonnes of oil and gas condensate in production fields in Croatia and internationally:

- in Croatia 554,777 tonnes of oil and 280,603 tonnes of gas condensate
- in Angola 70,158 tonnes of oil
- in Egypt 129,059 tonnes of oil
- in Syria 58,410 tonnes of oil and 386 tonnes of gas condensate.

In Croatia, oil was produced from almost 700 production wells on 35 oil fields. About 10 percent of total oil production was recovered by natural flow, while the remaining wells employ artificial lift: 39 percent gas lift and 51 percent pumped.

In addition to oil and gas condensate, 2.6 million m³ of water was extracted from the reservoirs. The water was separated, treated and reinjected into the wells where secondary methods of enhanced recovery were applied.

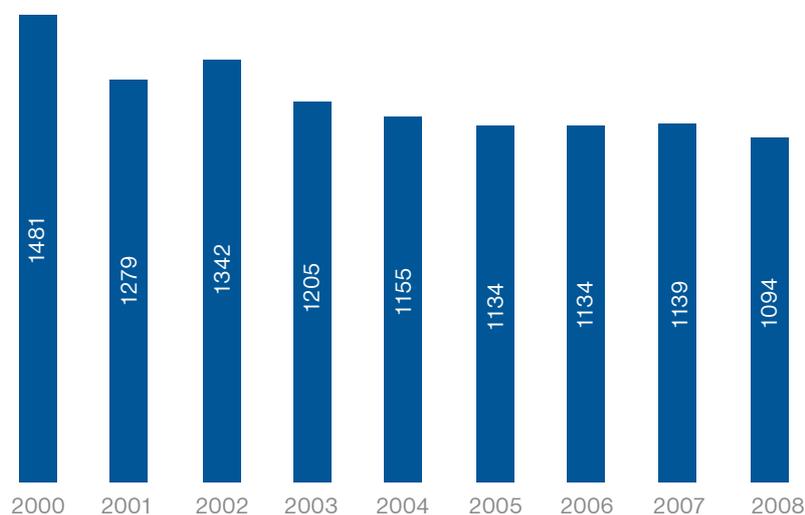
The new development well (Kz-41) in the Kozarice oil field was put on stream and produced 3,218 m³ of oil. Oil pro-

duction from the small Cabuna field began when the Ca-3 well was put into trial production. At year end, the well yielded 1,664 m³ of oil.

In order to gather the necessary data for putting gas reservoirs in Bilogora into production, production testing was performed on the development wells which produced 21.9 million m³ of gas.

In Syria, the new Mustadira gas-condensate field was put into production with the Mustadira-1 well. In June 2008, the new pipeline for transportation of oil from the Jihar OGS to terminal T-4 was completed.

Production of oil and condensate (t)



INA's natural gas production totalled 2,133 million m³ of which:

- in Croatia 2,035 million m³
- in Syria 98 million m³

Onshore natural gas production from the fields in the Pannonian basin accounted for 55 percent of total production, i.e. 1,128 million m³, while INA's share in production from

the Adriatic offshore fields was 45 percent: 735 million m³ in the Northern Adriatic contract area and 171 million m³ in the Aiza Laura contract area.

The underground gas storage was working in the XX and XXI production cycle and XXI injection cycle, during which 328 million m³ of gas was produced and 385 million m³ of gas was injected.

In order to achieve the planned production levels on the older fields, various workover operations were carried out during the year. The operations included 34 capital workover operations, including hydraulic fracturing, gravel pack and chemical stimulation, as well as 348 regular workover operations and 15 well equipment overhauls. For this purpose INA invested about HRK 216 million. The implementation of the above workover operations resulted in an increased

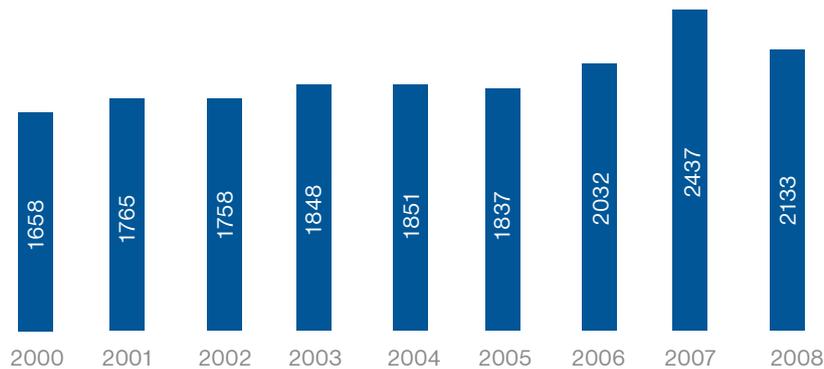
production of crude oil by 6,700 m³, 7.2 million m³ of gas and 1,195 million m³ of condensate.

In addition, the reconstruction and optimization of surface gathering systems and processing plants was performed in accordance with the plans.

As part of the safety and environmental protection programme, the reconstruction of the waste fluid pit was carried out in Beničanci and Lipovljani. Regular annual overhaul of the Molve treatment plant and Ethane plant were performed in September.

The Ethane plant at Ivanić Grad produced 94,201 tonnes of LPG and virgin naphtha and 57,220 tonnes of ethane.

Natural gas production (million m³)



In accordance with consumers' needs, in 2008 INA produced 0.4 million m³ of geothermal water and 2.6 million m³ of fresh water.

In 2008, this segment realized HRK 137 million or 71% of planned CAPEX in fixed assets for processing facilities, environmental projects and equipment. A new 1,800 m long 8" gas line was constructed on the Molve field which will enable compressor production from the wells on the eastern part of the field when the compressor station is built.

The works continue on the implementation of INA's EOR project (enhanced oil recovery) at the Ivanić and Žutica fields. Apart from increasing production volumes, this project is important because it will reduce carbon dioxide emissions. INA has obtained the necessary approvals for the EOR project. Engineering design projects have been completed for technology solutions in the gas treatment plant Molve and the Ethane plant where certain volumes of carbon dioxide will be compressed and dispatched by existing pipelines to the network of injection wells at the Žutica and Ivanić fields. Mining operations on part of the wells have

been completed and the procurement of necessary equipment is in course.

INA and MOL are working together to put the gas condensate field Vizvar in Hungary into production. The gas discovered in this field has a significant content of inert and acid components. As the field is situated near the border, it was agreed that the gas produced would be processed at INA's gas treatment plant in Molve. For this purpose INA constructed a pipeline from the Gola gas station to the Hungarian border, while MOL constructed the pipeline from the field to the border.

Within the scope of the 3rd phase of the Northern Adriatic development project, the IKA-B3 well was put into production in the middle of 2008 on the existing production platform Ika-B. Drilling and completion of the wells Ana, Vesna and Irina is almost finished.

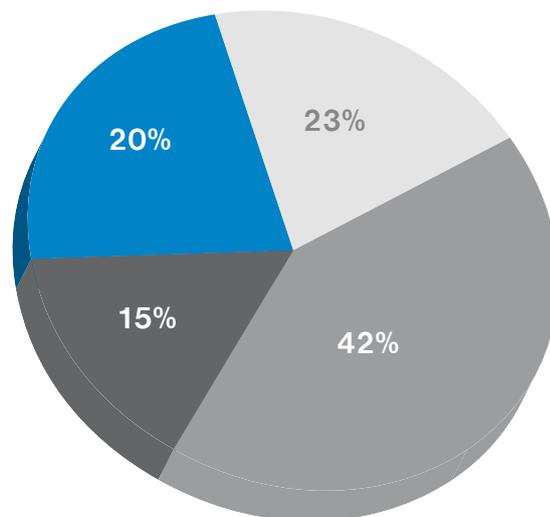
Preparation of project documentation and obtaining the relevant construction permits for putting the Izabela field into production is in progress.

NATURAL GAS SALES

In 2008, INA sold 3.1 billion m³ of natural gas to eligible* and tariff customers. The volume of natural gas sold and customers' market share is presented in the figure below.

Natural gas volumes sold according to category of customers in 2008

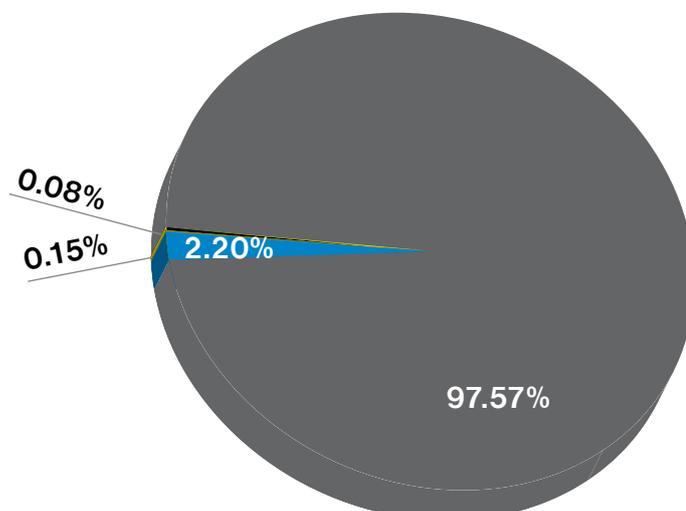
HEP - 23%
 PETROKEMIJA - 20%
 OTHER ELIGIBLE CUSTOMERS - 15%
 DISTRIBUTION COMPANIES - 42%



In 2008, the E&P Division generated gas sales revenue amounting to HRK 3.7 billion. In addition to natural gas, the Commercial Sector sells ethane, n-pentane and water. The total revenue generated by all these products was HRK 3.8 billion, 6% higher than in the previous year.

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

NATURAL GAS - 97.57%
 ETHANE - 2.20%
 WATER - 0.15%
 N-PENTANE - 0.08%



* According to Article 42 of Gas Market Law (NN 40/07) the eligible customer is:

1. the customer using natural gas for power generation, irrespective of volume of annual consumption, but within quantity limits intended for such use;
2. the customer using natural gas for co-generation, irrespective of volume of annual consumption, but within quantity limits intended for such use;
3. the end-user with consumption exceeding 25 million m³ in previous year;
4. the customer using natural gas for crude cast, steel and ferroalloy manufacturing, and having a minimum annual output of 50,000 tonnes of steel.

During 2008, INA held a series of negotiations with the Croatian Government, i.e. with the Ministry of Economy, Labour and Entrepreneurship, regarding an increase in domestic natural gas prices for all categories of consumers in order to decrease the loss from the gas business.

By the end of 2008, the Ministry passed a decision on setting the price of natural gas supplied by the wholesale supplier (currently INA d.d. is the only supplier) to tariff customers (distribution companies). The price has been increased from HRK 1.07 to 1.32/Sm³ for calorific value 33,338.35 kJ. Also, negotiations were conducted that were supported and mediated by the Ministry with eligible customers: HEP d.d. (Croatian Electric Company) and Petrokemija d.d. in Kutina (fertiliser plant). As a result of these negotiations, INA concluded annexes to the long-term contracts that have been signed with these large customers, according to which price is based on an escalation formula identical to the formula applied in the long-term contract for the supply of natural gas from Gazprom Export in Moscow. Consequently, prices of natural gas will change quarterly in accordance with the formula and the USD – HRK exchange rate effective in the preceding quarter. From the beginning of 2009, the same price setting model shall be applied to other industrial consumers (other eligible customers).

Following the decision on separation of natural gas business by the end of 2008 and setting up of a new company Prirodni plin d.o.o., 100% owned by INA,d.d.

NATURAL GAS SUPPLY

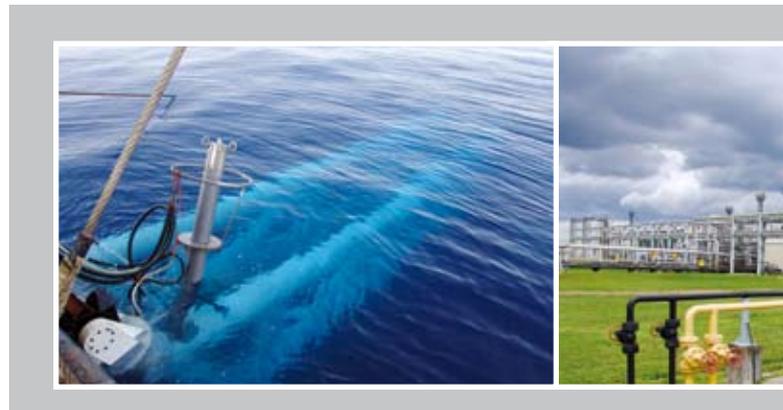
Total demand for natural gas in Croatia is met by domestic production (onshore and offshore) and imports from Russia according to long-term agreements with Gazprom Export, effective until 31 December 2010.

The Commercial Sector within the E&P Division is responsible for performance of all activities related to long-term import contracts, as well as the transportation contracts for transit of gas through Slovakia, Austria and Slovenia to the Croatian border pursuant to long-term transportation contracts.

In 2008, domestically produced gas covered 61% of total demand while 39% was covered by imports.

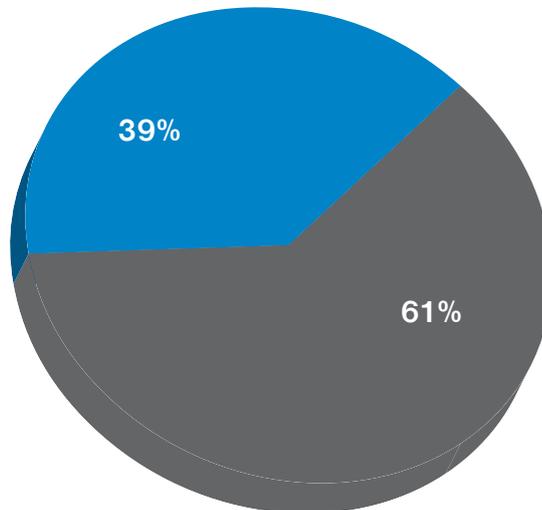
In order to ensure the security of supply in Croatia, INA acquired additional transport capacity through Slovenia and at the intake point Gorizia at the Slovenia – Italy border. This additional transport capacity made it possible to additionally import natural gas from the Italian market in February and during the summer months (July – September), and from the Slovenian market in the period September – November.

The import of natural gas from the Italian market was realized through a tender procedure and the signing of short-term supply contracts. Imports from the Slovenian market are pursuant to long-term (effective by 2012) supply contracts that have been signed with the Slovenian partner Geopljin d.o.o.



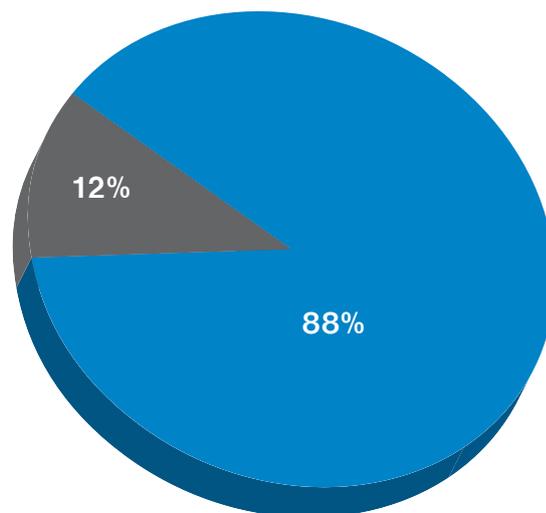
Structure of natural gas supply in 2008

DOMESTICALLY PRODUCED GAS- 61%
IMPORTED GAS - 39%



Structure of natural gas imports in 2008

OTHER IMPORTS - 12%
RUSSIAN GAS - 88%



REFINING AND MARKETING

Refining and marketing business segment is responsible for procurement and processing of oil, production and wholesale of oil derivatives and placement of oil products on the domestic and foreign markets.

The segment bases its operations on a long tradition and experience in oil derivatives production and on the company's business strategy.

In line with the policy of quality applied in the INA Group operations, the segment has opted for the development, improvement and continuing advancement in business processes, and we have been following the trends and developments present in oil products and oil processing technologies for the purpose of their optimization within our business system. The goal is to build trust and partnerships with buyers and suppliers. As part of a company that is aware of its corporate responsibilities, the Segment has been dealing with issues of environmental protection in a preventive manner and has been paying unwavering attention to occupational health and safety issues.

Our two refineries process oil and oil derivatives: The Rijeka Refinery and the Sisak Refinery. In 2008 the refining activi-

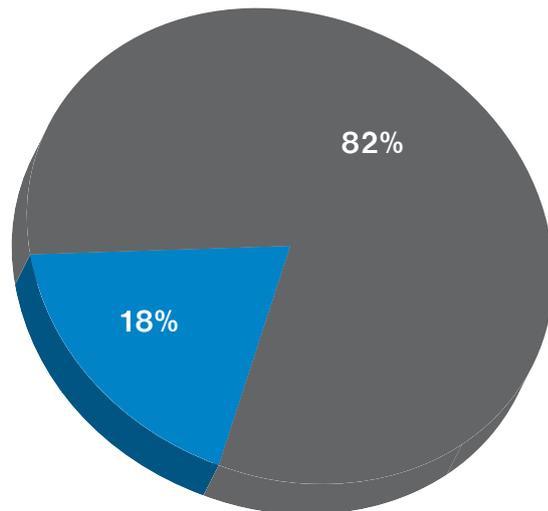
ties were marked by a very high level of instability and unpredictability due to a chaotic situation on the global oil and financial markets. Under such conditions, which demanded a cautious approach and a maximization of savings, both refineries processed approximately 4.3 million tons of oil, and, when secondary raw materials and semi-finished products are included, total processing volume was 4.6 million tons of raw material, which is 13.7 % below the volume processed in 2007.

The Sisak Refinery was not in operation for 45 days in 2008 due to capital overhaul activities that had to be carried out. The Rijeka Refinery was not in operation for 30 days in 2008 due to the planned installation of the VF furnace, and for another 35 days due to unexpected technical difficulties.

Following a business decision of INA d.d., production was closed down at the Mlaka location with the process starting at the end of August and ending at the beginning of October 2008, so that the only production left on the location is that of blending motor oils.

Oil processing volume in 2008

DOMESTIC OIL - 18%
IMPORTED OIL - 82%

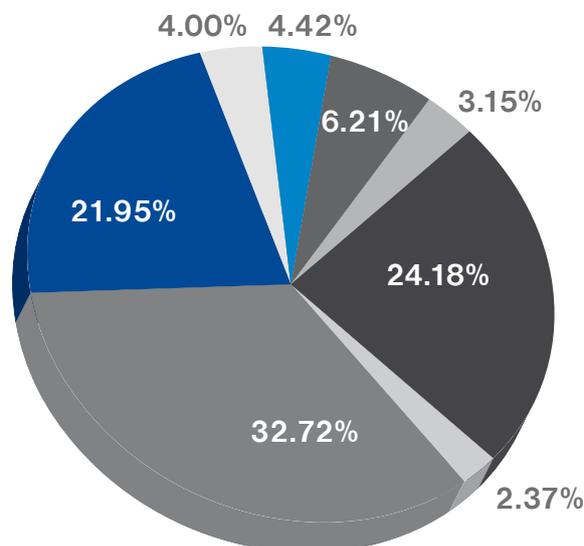


In 2008, The Rijeka Refinery processed 2.6 million tons of oil, and the Sisak Refinery processed 1.7 million tons (of which 45 % was domestic crude oil). The share of REB crude in the total amount processed was 81.8 %, while the share of domestic crude in the total amount processed was 17.7 %.

Other types of crude oil, Es Sider and Siberia light, represented a 0.5% share of the total volume processed.

2008 oil derivatives production breakdown

FUEL OILS - 21.95%
BITUMEN - 4.00%
OTHER - 4.42%
LPG - 6.21%
VIRGIN NAPHTA - 3.15%
MOTOR GASOLINE - 24.18%
JET - 2.37%
GAS OILS - 33.72%



Data in the consolidated production balance sheet of both refineries show that the share of motor gasoline Euro 95 (IV euro standard) was 41.8 % of all the motor gasoline produced, which is an increase of 1.5 % over the year 2007. The share of Eurodiesel DG euro (euro IV standard) was 47.4% of all the diesel fuel produced, which is a 8% fall in the share of production compared to 2007.

Refinery modernization

In spite of adverse conditions, especially financial ones, that prevailed in 2008, the refinery modernization plans were implemented.

Regarding the first stage of modernization of the Sisak refinery, two projects were completed (the Claus plant and the HDS/FCC gasoline plant) and a third one was started (Isomerization). This will make it possible to increase the volume of production of motor gasoline meeting the euro V standard at the Sisak Refinery.

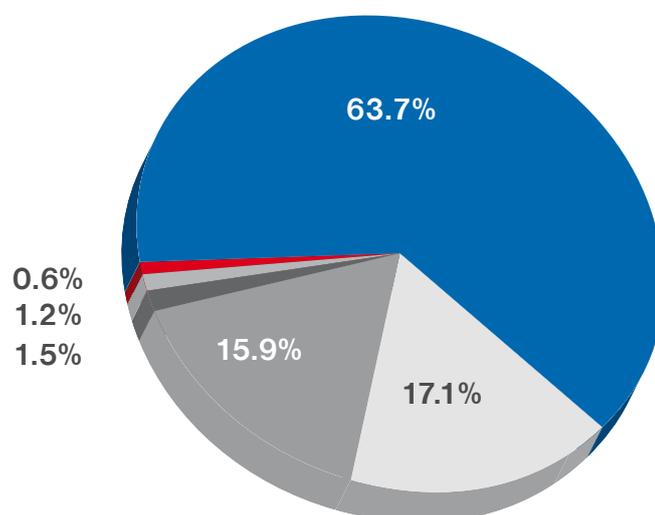
Regarding the modernization project of the Rijeka refinery, the Isomerization plant started operations at the beginning of March 2008, making it possible to produce increased quantities of motor gasoline of EURO quality standard. Works were intensified at the hydrocracking/HDS plant for gas oils with all the ancillary plants, thus making it possible for the Rijeka Refinery to produce diesel fuels and motor gasoline meeting the current EURO standards in 2010.

In 2008, the INA d.d. Refining and Marketing business segment had total sales volume equal to 4,385 million tons, of which 2,794 million tons, or 64 %, was sold at home and 1.591 million tons, or 36 %, was sold abroad.

Compared to sales volumes in 2007, a fall in sales was recorded in 2008, and it amounted to 3% on the domestic market and 18 % in exports. This is due to a fall in the overall level of production in the course of 2008, but also to adverse conditions prevailing on the global market for crude oil and oil derivatives.

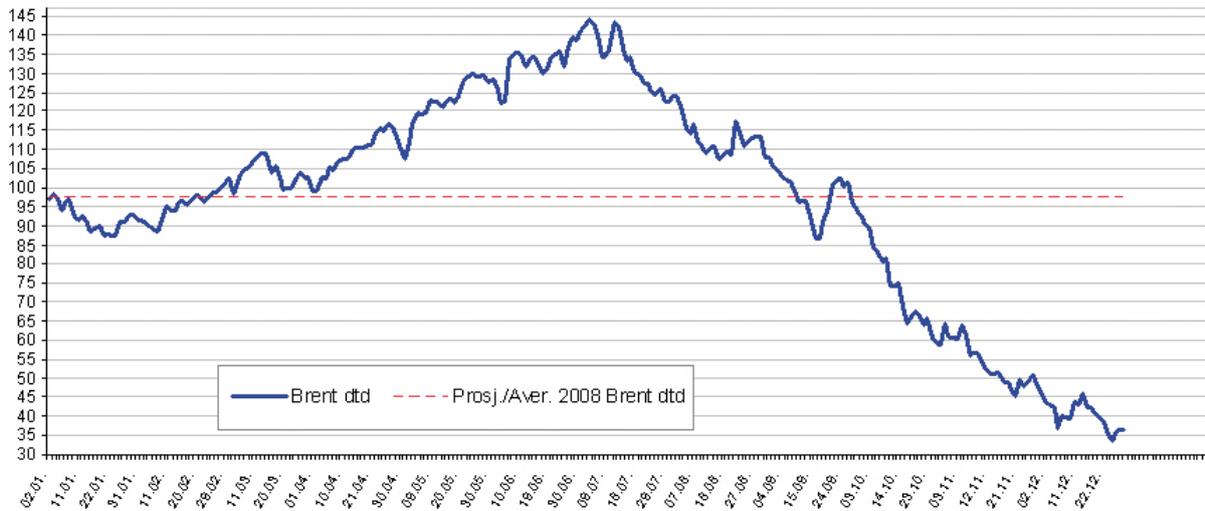
Sales of oil derivatives by market

CROATIA - 63.7%
OTHER EXPORT - 17.1%
B&H - 15.9%
SERBIA - 1.5%
SLOVENIA - 1.2%
MONTENEGRO - 0.6%

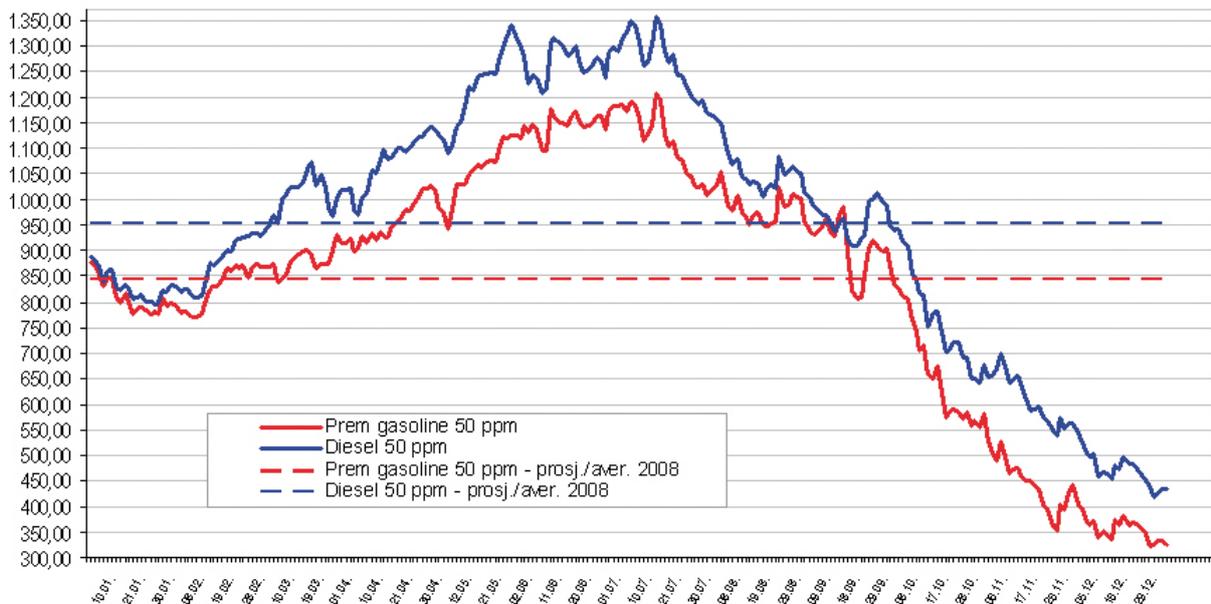


International markets saw a considerable price hike in the first half of 2008, and INA d.d. was not able to follow the trend in its oil derivatives pricing. The second half of the year saw a steep fall in crude oil prices and an even steeper fall in oil derivatives prices. Thus the 2008 business environment was extremely unstable and unfavorable for the oil industry.

Brent dtd in 2008/2008 Brent dtd (USD/bbl)



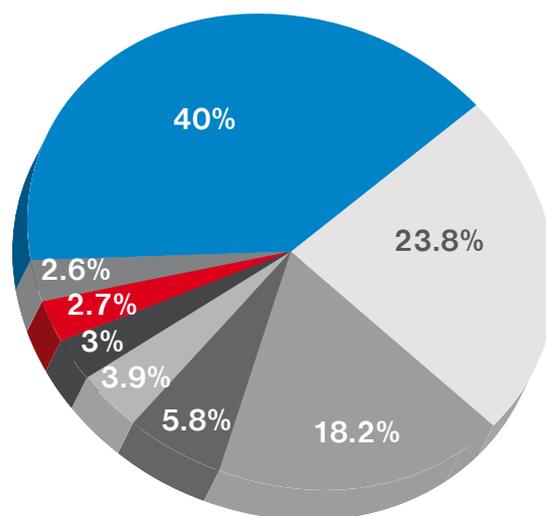
CIF Med. 2008/2008 CIF Med Prices, (USD/t)



As lower oil processing volumes and reduced quantities of oil derivatives made available from own production in 2008 could not satisfy the market demand, imports were increased by 178 % compared to 2007.

Breakdown of total sales by product group in 2008

GAS OIL - 40%
MOTOR GASOLINE- 23.8%
FUEL OILS - 18.2%
LPG - 5.8%
BITUMEN - 3.9%
VIRGIN NAPHTA - 3%
OTHER - 2.7%
JET A-1 - 2.6%



The Logistics Sector plays a central role as a link between production and marketing in INA d.d. downstream operations. In order to improve the efficiency of the link, activities on increasing transport efficiency have been continued, together with more economical inventory management and unit cost reduction efforts.

In 2008, all modes of transport were used to move 2.75 million tons of products (2.4 % less than in 2007), of which 1.62 million tons were transported by road, 0.38 million tons by rail and 0.75 million tons by sea. Containers in logistics were used for transshipment of 0.95 million tons of oil derivatives (2.7 % more than in 2007). A large

part of oil derivatives was transported to customers directly from refineries, in accordance with the optimum model of logistics and at a minimum cost.

Technical and technological upgrading of operations continued in 2008 with the goal to improve business and cost efficiency, not only short-term but also mid- and long-term. Technical and technological upgrades were made on measuring systems at points of delivery and dispatch at every warehousing location. Preparatory activities were completed for the construction of a new terminal in the port of Ploče and for the reconstruction of the existing terminal in Solin, in accordance with the optimized logistics model and with full observance of ecological requirements.

RETAIL SEGMENT

The Retail Services business segment is responsible for the network of petrol stations located in Croatia, Slovenia and Bosnia and Herzegovina, totalling 435 petrol stations in Croatia (413 owned by INA d.d. and 22 by subsidiary companies), 6 in Slovenia, and 44 in Bosnia and Herzegovina. The size of our network is even larger as a certain number of petrol stations, mostly located in Bosnia and Herzegovina, Serbia and Montenegro, are in the process of being restituted as INA d.d. property. The oil derivatives retail market share held by INA Group and by INA d.d. is estimated at 54.09 %, and 51.84 % respectively.

In 2008, the INA d.d. retail network in Croatia was organized in 6 retail sales areas with 17 retail sales business units coordinating the operations of 413 petrol stations (as of 31 December 2008).

Total sales of oil derivatives went up by 2% in 2008 compared to 2007 (gas oil sales went up by 4.76 %, and sales of motor fuel went down by 3.30 %).

Car gas sales went up by 24.63 % in the same period.

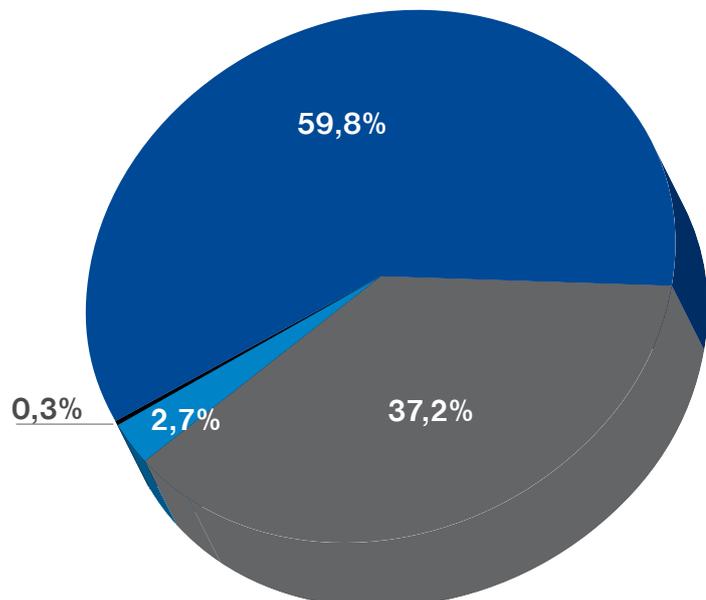
In the total oil derivatives sales volumes, fuels represent the largest segment with 98 % of total sales (motor fuels, gas oils and car gas), while non-fuels (oils, lubricants, gas in containers, etc.) represent 2% of sales. Average derivatives sales volume by petrol station went up by 1.50 % in 2008.

Our petrol stations also sell consumer goods and there are more than 2500 different products to choose from. Consumer goods sales in 2008 went up by 9 % compared to 2007 in terms of volumes and 11% in terms of margins.

The product range on offer has been expanded with new products and services offered by service facilities and with new and innovative services for travellers (coffee-to-go, fast food concept, etc.).

Sales volumes by product group in 2008

GAS OIL - 59,8%
LUBRICANTS - 0,3%
LGP - 2,7%
MOTOR FUEL - 37,2%



Due to our focus on the consumer, his wants and needs, INA petrol stations have gained recognition as sales points with friendly staff and quality service. INA d.d. has continued to organize promotional activities, prize draws and tastings in order to attract buyers and inspire them to come again to our petrol stations.

Two new petrol stations were completed and opened in 2008: the Lepa Bukva service and catering station and the Zaprudče petrol station in Zagreb. Major renovation works were completed at the Franka Lisice Street petrol station in Zadar.

Investment activities were continued in order to further upgrade the operations of petrol stations in terms of technology and security (new visual identity, new measuring equipment, computerization, video surveillance systems, alarms, safe boxes, etc.). Special attention was paid to raising awareness of the need to protect the environment and of the responsibility to preserve the environment.

The card operations sector collected 52% of total sales

at retail locations through payments made by INA d.d. and other cards. The INA card can now also be used to pay for the use of all the toll-roads in Croatia.

Implementation of INA's retail network development strategy has continued with new investments and operational improvements in the quality of services provided at petrol stations. In addition to motor fuels, our petrol stations also provide state-of-the-art shopping of consumer products, as well as additional services aligned with the needs of our clients.

Our strategic goal continues to be brand strengthening by aggressive improvements in the retail network, which will enable INA d.d. to remain the market leader in the oil derivatives retail sales market.



CORPORATE SERVICES

Information Services Sector

In the Information Services Sector, the year 2008 was marked by improvements introduced in the sector's management processes. Considerable reductions were achieved in controllable operating costs (27% lower than in 2007), together with improvements in management processes, primarily in the area of procurement, vendor and project management.

The year 2008 was also marked by a continuous focus on the further development of the SAP system, which means that consultants were engaged on a much lower scale as the SAP Competence Center provided most of the operating support required.

The quality of operations reached by SAP CC has been recognized by the company SAP, which has certified SAP CC as a centre that is capable of successfully managing licences and contracts, providing support in everyday operations with SAP and meeting requests to upgrade operations.

Activities related to improving the INA d.d. information system were implemented through the development of new applications and by upgrading the IT systems used in refineries and petrol stations. In order to further improve the IT system at INA d.d., more intensive communication has been established with the users and support teams have been set up in each of the business segments and business functions.

Regarding IT infrastructure, IT operations standardization and information security, many improvements were made while the achieved level of service quality was maintained.

Cooperation between INA and MOL intensified in 2008 compared to 2007 in the following areas:

- Better commercial terms when purchasing equipment, services and maintenance: licences (Autocad, Corel, Oracle, SAP, Microsoft), personal computers and laptops, verification of technical specifications for purchases
- Exchange of experience and knowledge, cooperation on the following projects: SAP, telecom contracts / costs, SAP CC certification, VIRSA, Customer Interaction Centre – CIC, video-conference system, data centre upgrade, contract management, the REACH project, user satisfaction analysis. Also, IT support was expanded in SINACO d.o.o. and EDINA d.o.o., as well as in the new company Podzemno Skladište Plina d.o.o. (Underground gas storage facility).

Procurement Sector

In 2008 the Procurement Sector was able to contract lower prices compared to those offered by vendors, thus exceeding the savings levels planned for the year. This was made possible by expert support that the sector provided to the Tendering Committee and by its direct involvement in the negotiations with vendors.

Procurement Sector activities were carried out in 2008 in an environment marked by changes to the Public Procurement Act in Croatia. The activities were marked by a fast adjustment to the new regulations and by knowledge transfer within the sector.

Procurement Sector provided support when contracts were entered into that were relevant to the operations of the entire company, and it is worth mentioning here that major savings were made in the area of consultants' services for the operation of the SAP system, when contracting the services of oil and oil derivatives quantity and quality controls, in the area of fixed and mobile telephone services, data transfer and ADSL internet access.

Procurement Sector continued its successful co-operation with OptINA in 2008 so that more favourable joint solutions were found, savings were made, fixed prices were agreed to for services and spare parts during the contract validity period, user needs were merged and delivery and service provision periods were shortened.

Storage and Inventory Management Sector

Following the integration of storage operations at INA d.d. on 1 January 2008, activities were carried out to specify the way in which storage space should be used for specific purposes, how to improve own capacity utilizations and cancel third-party storage use, the way to introduce all-encompassing cost control, and how to manage business activities in a unified and transparent way. As a result, the inventory-related operating costs were reduced by 50%.

The targeted 5% reduction in inventory levels compared to 1 January 2008 was achieved through more effective inventory management with the support of the SAP MRP module.

With a better insight into inventory use and turnover, it was possible to better plan future needs for materials, parts and chemicals needed in production, and 30 million Kuna of

savings were made as the optimum quantities were ordered and excess inventory levels were eliminated.

It has to be stressed here that accounting data on 31 December 2008 show no write-offs of unnecessary stocks apart from those left from earlier periods.

Most activities in the area of master data maintenance focused on improving the quality of the data migrated to the new system in order to ensure the smooth flow of business activities in SAP. Most of the material used on a daily basis was covered, which includes some 30,000 items at 12 storage locations.

Revenue from the sale of written-off assets and materials outside the INA Group increased by 25% compared to 2007.

Maintenance Management Sector

In 2008 the Maintenance Management Sector participated in some key projects, such as the 2008 Sisak Refinery overhaul and monitoring the status of rotation equipment.

As regards the Sisak Refinery overhaul, the Maintenance Management Sector was the main team leader. The work was organized as a project and was based on team work with preconditions already put in place at the end of 2007 when the project was set up. Also, all the necessary plans were prepared and work execution was harmonized in the area of maintenance and overhaul, logistics was put in place and works execution was completed.

Activities related to the project for monitoring the status of rotation equipment have been continued.

Work was continued on the further improvement and optimization of business processes using SAP modules and special attention was paid to the control of the adequate

use of cost elements and improvements to the system of execution of work orders approved.

The INA-STSI team has been revising the service catalogue (extended item description, addition of new items, and new specialist catalogues) contained in the 3-year maintenance contract signed with the subsidiary STSI.

Facility Management Sector

In 2008, the Facility Management Sector continued to apply the programme of rationalization of operations and the organization of activities that do not support the core business activities of INA d.d. The programme started in 2006 and we point out here the successful implementation of the following projects:

- Entry and expansion of the SLA contract (Facility Management Sector, BS Oil and Gas Exploration and Production, Storage and Inventory Management Sector, BS Refining and Marketing, BS Retail) in the area of maintenance of non-core facilities
- Completion of the project of maintenance and management of non-core objects from BS Retail (16 business facilities)
- Completion of the project of maintenance and management of empty warehousing capacities not needed by core activities (12 warehouses)
- Start of the HACCP (Hazard Analysis Critical Control Point) implementation project in accordance with the Food Act, and standardization of operations and harmonization of standards and prices in INA d.d. canteens and restaurants.
- Continuation of the project of optimization of rent-a-car vehicle costs in INA Group, started as part of the OptINA project, where savings in 2008 amounted to 20% compared to 2007.





**STRATEGIC
PARTNERSHIP
WITH MOL**





STRATEGIC PARTNERSHIP BETWEEN INA AND MOL

Strategic partnership

By acquiring 25% plus one share, MOL became INA's strategic partner in 2003 and INA found its way into an integrated regional oil and gas industry partnership consisting of MOL, INA, Sloznaft and TVK. The cooperation and the materialization of synergies continued throughout the next 5 years.

Changes in ownership structure

After a number of share transactions by the Government of Croatia in 2006-2007, i. e. the transfer of shares to the war veteran's fund, an IPO, the sale of shares to former and current employees, the ownership structure of INA changed and 44.84% of the total shares remained in state ownership. In October 2008, MOL became the largest shareholder of INA by acquiring an additional 22.16% shares through a voluntary public takeover offer.

Agreements signed by the major shareholders related to INA governance and business operations

Following the closing of the public offer, MOL and the Government of Croatia continued discussing the future development and governance of INA. As a result, in January 2009, the Amendment to the Shareholders' Agreement and a Natural Gas Master Agreement were signed by the two major shareholders. According to these agreements MOL will have management control of INA, while the Croatian Government will have veto and pre-emptive rights regarding its strategic assets and will be responsible for the supply of industrial and household energy. Based on the contracts, INA will withdraw from the regulated part of the gas business and the regulatory risk will also be mitigated.

Successful co-operation in the past

1. Joint upstream activities

In 2008, joint upstream activities of exploration wells Zalata (Hungary) – Podravska Slatina (Croatia) continued and the evaluation of well Dravica-1 was completed in December. Processing of the recorded 3D seismic results and a comparison with the existing 3D recordings from the Hungarian and Croatian surrounding area was carried out for the border area Novi Gradac (Croatia) and Potony (Hungary) for which a contract was signed in 2007.

Interpretation of seismic data is jointly conducted by experts at INA and MOL.

Based on past experiences in joint upstream exploration activities, stronger cooperation on international upstream exploration projects between INA and MOL can bring significant positive results. Cooperation in this area enables the companies to join HR and financial resources in order to achieve additional savings and benefits and improve operational efficiency.

2. Support of the refinery modernization program

MOL supports INA by transferring know-how and experiences from its own transformation and modernization of refineries. The modernization in the Sisak and Rijeka refineries, which are worth more than USD 1 billion, are among INA's top priorities and are being executed in two major phases. As a result of the first phase of the modernization program, INA's petroleum products will comply with the European standards, while the second phase of the upgrade will lead to product yield improvements and an increase in the overall efficiency and profitability. After completion of the refinery modernization, INA will operate two of the most technologically advanced refineries in the region.

3. Regional retail network development

The partners have consolidated a marketing strategy for the South East European region, including a review of retail positions in the region. As part of the strategy, a joint project to increase the number of INA petrol stations in Hungary was launched at the end of 2008.

4. Other areas of corporation

The further development of the partnership relationship is intended to enable us to exploit synergies in all business aspects and establish a corporate structure and communication channels which should provide better utilization of the expert knowledge in the companies.

The exchange of knowledge and the implementation of joint projects are intended to assist INA in the realization of our growth targets in the region.

MOL provides support to INA by implementing the industrial best practices in various areas of business, including procurement, supply chain management and health, safety and the environment.



FINANCIAL RESULTS



FINANCIAL RESULTS

CHANGES IN ACCOUNTING POLICIES AND ESTIMATES

In 2007, the company adopted IFRS no. 7 "Financial instruments: disclosure", that is applied to annual financial reporting periods starting on or after 1 January 2007, and the consequential amendments to IAS no. 1 "Financial report presentation". Adoption of IFRS 7 and the amended

IAS means that more data have been disclosed in financial reports on financial instruments and on the company's capital management.

The current reporting period has been impacted by the eight interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC): IFRIC 7-14, but their adoption has not caused any changes in the company's accounting policies.

INA Group – financial performance (IFRS)	2007		2008		Change %	
	HRK mil	USD mil	HRK mil	USD mil	HRK	USD
CONTINUED OPERATIONS						
Net sales revenue	24,095	4,492	27,144	5,503	12.7	22.5
EBITDA	3,305	616	3,564	722	7.8	17.2
Operating profit	1,537	287	1,310	266	(14.8)	(7.3)
Net profit (loss) from financial activities	105	20	(780)	(158)	-	-
Profit for the year	1,278	238	352	71	(72.5)	(70.1)
DISCONTINUED OPERATIONS						
Loss for the year	(407)	(76)	(1,450)	(294)	256.3	287.4
TOTAL OPERATIONS						
Net-profit/loss*	869	162	(1,099)	(223)	-	-
Net-cash flow from operations	2,416	450	2,629	533	8.9	18.4

* INA Group net-profit attributable to equity owners

The Government of the Republic of Croatia and the Hungarian oil company MOL signed the Gas Master Agreement (a framework agreement regulating some of the key issues related to future developments in the natural gas market and the supply of natural gas in Croatia) on 30 January 2009. According to the agreement, the Government, or a company owned by it and incorporated for the purpose, shall in the course of 2009 take over the natural gas storage and natural gas trading activities.

The implementation of the Master Agreement on natural gas business shall result in the gradual shedding of the gas

business from INA d.d. In line with the company's business strategy, INA d.d. shall continue the activities of its exploration and production of gas in the Republic of Croatia, both on-shore and off-shore.

Since gas trading represents a part of the company's core activities, the company has shown related performance and cash flows as profit and cash flows from discontinued operations. Comparable profit and cash flows from discontinued operations are shown so that they include these activities classified as discontinued in the current period.

KEY FINANCIAL INDICATORS FOR 2008

In 2008, INA Group increased its total sales revenue by 11 % compared to 2007, and the total amount was 28.8 billion kuna, but adverse economic factors that were present throughout the year, especially in the last quarter, had a negative impact on the overall annual performance. The fall in crude oil prices that was recorded after the unprecedented hike, coupled with the fall in the prices of derivatives, were reflected in the revaluation of inventories and decreased the performance for the year by 1,106 million kuna. Increases in the exchange rate of the US dollar and in the foreign-currency debt level had a considerable impact on the loss incurred from financial operations, which amounted to 780 million kuna. Increased prices of imported natural gas and additional intervention imports had a strong negative impact on our financial performance in 2008, decreasing it by 1,400 million kuna. The process of shedding and selling off the administratively regulated gas business is now underway. Sales price caps on oil derivatives and on LPG have resulted in unrealised gains amounting to 530 million kuna. As the price of oil derivatives started falling, oil derivative price caps were eliminated towards the end of 2008.

In 2008, cash flow from operations before changes in working capital was lower than in 2007 by the amount of 846 million kuna and was equal to 1,790 million kuna. Changes in working capital are to a large extent the consequence of the increase in liabilities to suppliers (726 million kuna) and the decrease in receivables from buyers (269 million kuna), which increased the total cash from operations by 972 million kuna. The company's capital expenditures in 2008 amounted to 4,371 million kuna and were financed from increased indebtedness by 2,362 million kuna compared to 31 December 2007.

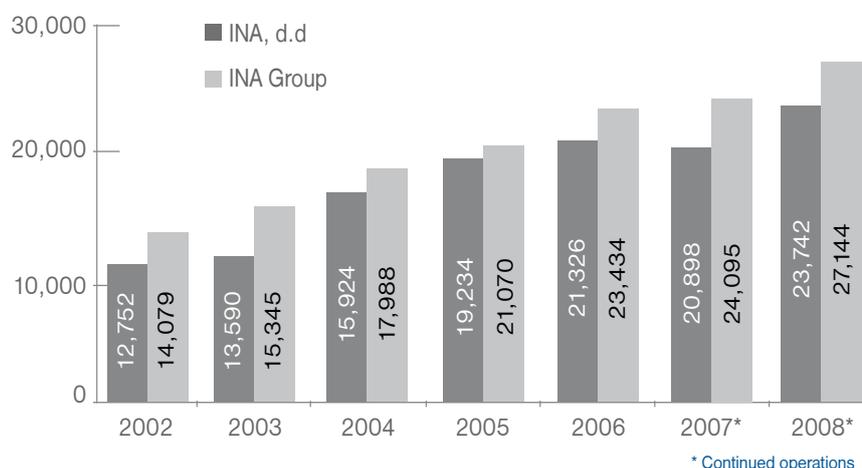
Last year saw the continuation of the modernization pro-

gramme of the refineries in Sisak and Rijeka in accordance with the plan.

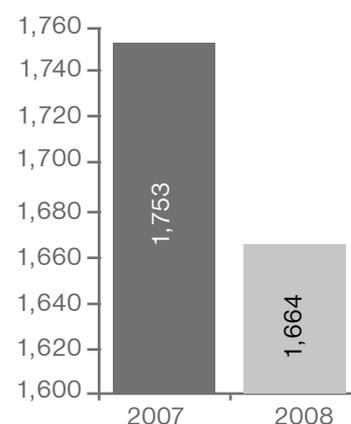
Total investment in 2008 increased to 4.37 billion kuna, mostly related to the modernization programme, as well as to the projects underway in the Northern Adriatic, where joint investments were continued with ENI (INAGIP) and Edison (EDINA). Foreign investment projects were continued in Egypt and Syria, with an impact on increased profitability already in 2009. Profit from operations of the INA Group (continued operations) in 2008 amounted to 1,310 million kuna (266 million USD) and was 227 million kuna lower than in 2007. Although the average yearly oil price was higher than the year before, the performance was strongly impacted by a drastic fall in oil prices in the second half of 2008. Revaluation of oil and derivatives stocks, reduced production of hydrocarbons, and lower levels of production and sales of oil derivatives had a negative impact on the 2008 performance. The adverse effect of the *price cap*¹ considerably impacted the performance, although it disappeared toward the end of last year. Loss from financial operations was higher primarily due to foreign exchange rate losses due to the increase in the US dollar exchange rate and in the level of long-term debt.

In 2008, the INA Group's overall operations incurred a loss of 1,099 million kuna (in 2007, INA recorded a profit of 869 million kuna), of which the loss from gas business (discontinued operations) was 1,450 million kuna, which was higher compared to the previous year's loss of 1,043 million kuna (higher volume of imported natural gas and an increased negative difference between sales and import prices due to the administrative price regulation on the domestic market).

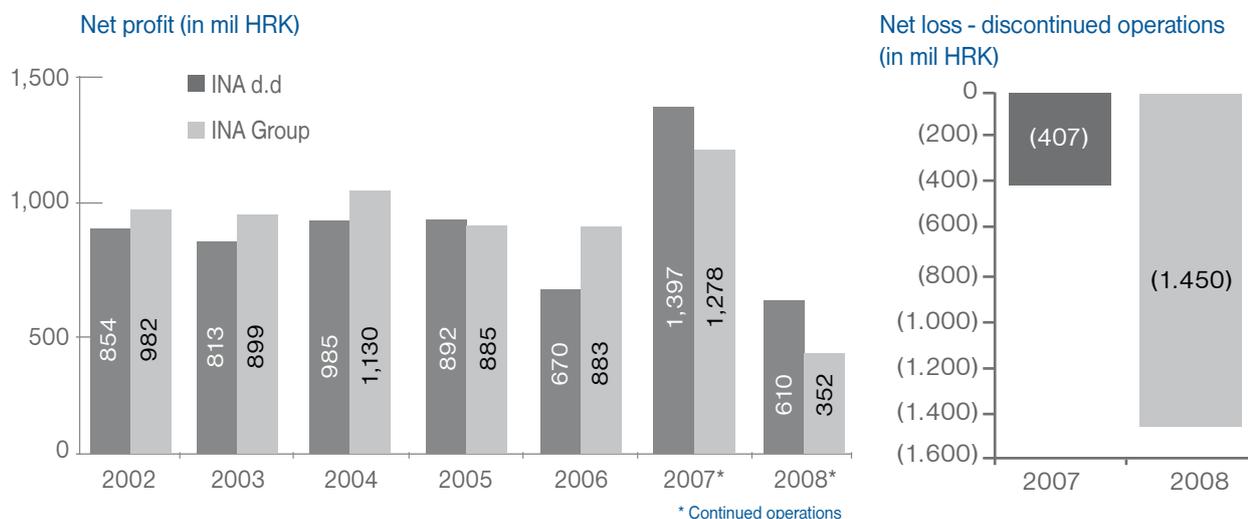
Sales revenue (in mil HRK)



Sales revenue - discontinued operations (in mil HRK)



¹ Price cap on oil derivatives (218 million HRK) and lost revenue due to LPG administrative price regulation (312 million HRK), total 530 million kuna. Price cap on oil derivatives was not applied in the last quarter, while the negative impact of limited LPG prices was present until November.



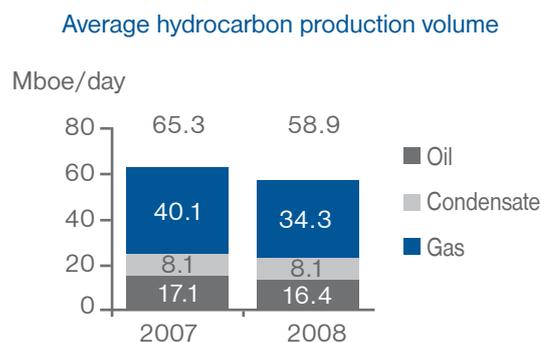
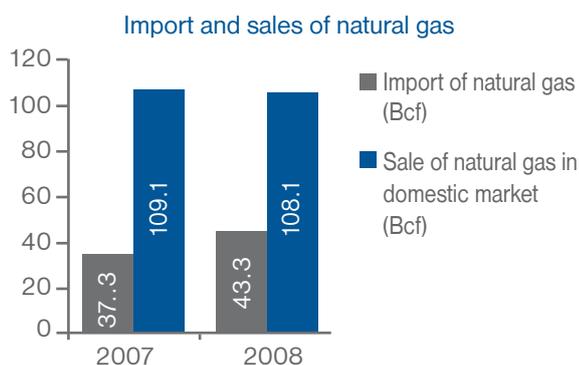
OIL AND GAS EXPLORATION AND PRODUCTION

Segment IFRS performance

	in million	2007		2008		% change	
		HRK	USD	HRK	USD	HRK	USD
Revenues:							
- from continued operations		6,380	1,190	8,273	1,677	29.7	41.0
- from discontinued operations		1,753	327	1,664	337	(5.1)	3.2
Operating profit:							
- from continued operations		2,562	478	3,528	715	37.7	49.7
- from discontinued operations		(517)	(96)	(1,702)	(345)	229.2	257.9
CAPEX		1,559	291	2,552	536	63.7	84.3

Profit from continued operations increased in 2008 by 966 million kuna to the amount of 3,528 million kuna (715 million USD)². The positive impact of higher average crude oil prices for the year (increase in BRENT FOB was 33.8%) was partially offset by lower production volumes of hydrocarbons (primarily due to lower production volumes of natural gas in the Northern Adriatic fields in accordance with the production sharing agreement) and higher production costs.

In 2008, discontinued activities resulted in an operating loss of 1,702 million kuna, compared to a 517 million kuna loss in 2007.



²The Management Board is of the opinion that the price cap (530 million HRK) was a direct consequence of high prices of crude oil since the regulator considered that the profit made in the business segment Exploration and Production was an adequate source of compensation for the negative impact produced by regulated prices. If the segment's performance was to be corrected for the effect of the price cap, profit from core activity would be 2,998 million kuna.

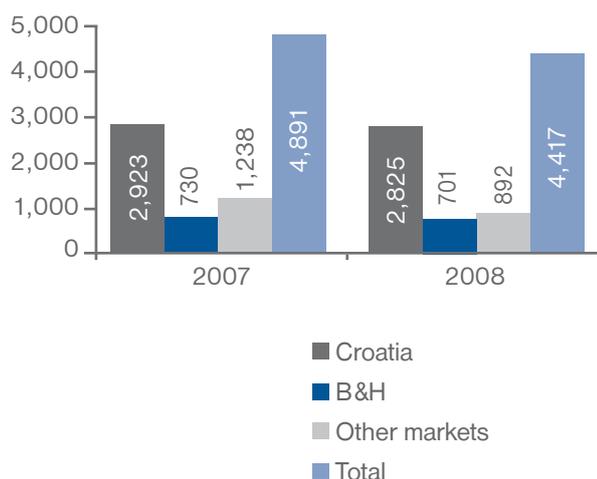
REFINING AND MARKETING

Segment IFRS performance	in million	2007		2008		% change	
		HRK	USD	HRK	USD	HRK	USD
Revenue		18,764	3,498	19,888	4,032	6.0	15.2
Profit/loss from operations		59	11	(1,266)	(257)	-	-
CAPEX		985	184	1,571	318	59.5	73.4

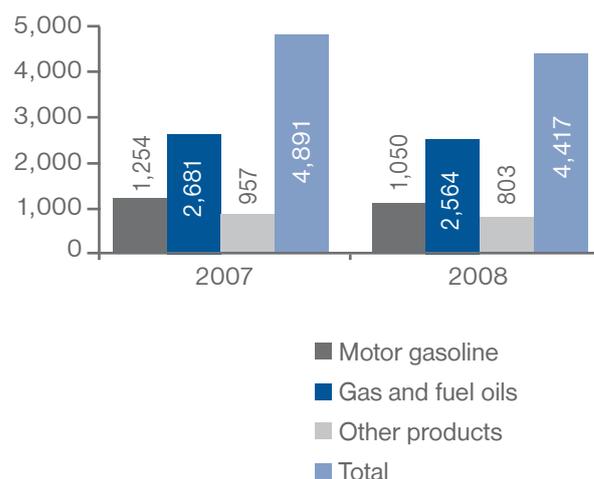
In 2008, this segment recorded a loss from operations in the amount of 1,266 million kuna (257 million USD), while last year the profit was 59 million kuna. The production was unexpectedly stopped for a month due to a breakdown at the Topping plant in the middle of September, at the time when oil prices started falling, which had a considerable negative impact on the factors defining the company's financial results. The negative result is primarily the consequence of the negative impact of stock revaluation of oil

(289 million kuna) and derivatives³ (817 million kuna) due to the price decreases in the second half of the year (total impact equal to 1,106 million kuna), lower quality production mix and lower volume of sales. The negative impact of the *price cap*⁴ on the domestic market amounted to 109 million kuna, and was coupled with the negative impact of administratively regulated prices of LPG in 2008, amounting to 280 million kuna⁵.

Sales of refinery products (000 t)



Sales of refinery products (000 t)



3. Total stocks of imported oil and oil derivatives (finished products, semi-finished products and work in progress), together with stocks held by Retail Services, are recorded in the Business Segment Refining and Marketing.

4. Total impact of non-application of the maximum price of oil derivatives (price cap) in 2008 amounted to 218 million kuna compared to 260 million kuna in the previous year, and has been shared equally between the Business Segment Refining and Marketing (109 million kuna) and BS Retail Services (109 million kuna).

5. Total negative impact equals 312 million kuna, of which 280 million kuna refers to the BS Refining and Marketing, and 32 million kuna to BS Oil and Gas Exploration and Production.

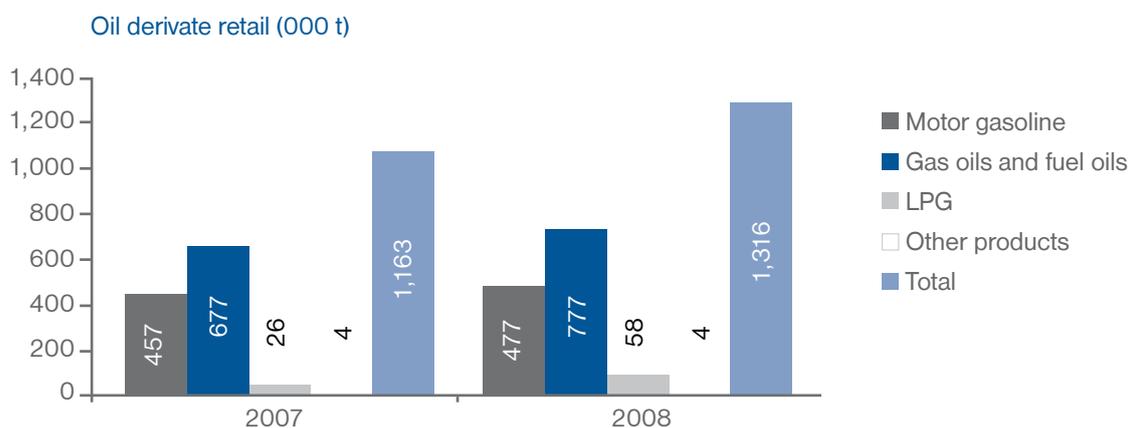
RETAIL SEGMENT

Segment IFRS performance	in million	2007		2008		% change	
		HRK	USD	HRK	USD	HRK	USD
Revenue		5,850	1,091	8,221	1,667	40.5	52.8
Profit/loss from operations		(90)	(17)	(98)	(20)	8.9	18.4
CAPEX		212	40	143	29	(32.5)	(26.7)

* Includes the BS Retail Services and Petrol Rijeka, and, since 1 Jan 2008, retail sales of the following subsidiaries: Proplin, Crobenz, Osijek Petrol, Interlna Ljubljana, INA BH Sarajevo, Holdina Sarajevo, INA -Crna Gora.

Total sales volume (without retail sales of subsidiaries) went up by 2.0 % in 2008, and the average turnover per petrol station went up by 1.5 %. The implementation of the INA d.d. retail services strategy increased the number of petrol stations managed by the segment by 3 compared to the number on 31 December 2007, so that the total was 485 petrol stations. The core activity of the segment incurred a loss of 98 million kuna (20 million USD) or a loss increase of 8 million kuna compared to 2007. The

positive impact of the 43 million kuna higher retail sales margin compared to 2007 (22 million kuna was the positive impact of increased sales volume and 21 million was the result of lower negative impact of the non-application of price caps) was reduced by a 13 million kuna higher negative impact of asset value adjustments (IAS 36)⁶ and a 38 million kuna increase in other expenses (due to the increase in the number of petrol stations and in the average salary per employee).



CORPORATE AND OTHER ⁷

In 2008, the segment recorded a performance of 854 million kuna (173 million USD), which is an improvement equal to 140 million kuna compared to the previous year, primarily due to lower operating costs and related expenses, which was partially offset by the higher cost of personnel.

⁶ Adverse effect on revenues due to anticipated lower profitability of petrol stations

⁷ Corporate and Other, save Corporate Functions, includes subsidiaries engaged in safety and protection services, technical services and other services, and corporative support and other services

BUSINESS ENVIRONMENT

Deteriorating developments on the global financial markets started in the last quarter of 2007 and continued all through 2008 in spite of all the measures taken to alleviate and improve the situation. In the meantime, the global economy experienced a massive slowdown, especially pronounced in the last quarter of 2008, when a large number of countries, both developed and developing, faced recession, with the final result being a steep fall in global industrial production and the trading of goods. According to the IMF estimates, the rate of global economic growth could be 3.4 % in 2008, while the 2009 estimates are at the level of only 0.5 %.

In 2008, crude oil prices fluctuated between 35 and 144 USD per barrel, the latter being the highest price recorded to date. The average crude oil price Brent FOB Med was 97.3 USD per barrel, which was 33.8 % higher than the 2007 average (72.7 USD/bbl). In the course of the first half of 2008, the price went up to reach 144.2 USD per barrel in July. Problems in the financial markets and high volatility in the securities market redirected the investors and surplus funds to the commodities market, so the price of crude oil went up in the first half of 2008 and reached unprecedented levels, only to start a sharp fall in the second half of the year, ending at the level of only 36.7 USD per barrel at the end of the year, as demand went down due

to a global fall in business activity and worsening economic prospects.

Average refinery margin (FOB Med - Italy) quoted by Platt's went up by 2.4 % compared to 2007 (from 48.7 USD/t in 2007 to 49.8 USD/t in 2008). The positive impact of a higher average oil price (increase of 33.8% compared to 2007) was reduced towards the end of the year and especially in the last quarter, when the average refinery margin was 30.2 USD/t. Unleaded gasoline margin (50ppm) went down by 27.3 % (from 135.6 USD/t in 2007 to 98.6 USD/t in 2008), and EN590 50 PPM gas oil margin went up by 80.2 % (from 110.7 USD/t in 2007 to 199.4 USD/t in 2008). Negative margin on fuel oil (3.5%) went up by 32.8 % (from -210.1 USD/t in 2007 to -278.9 USD/t in 2008).

The Croatian kuna appreciated from the start of the year by 0.1 % against the euro, i.e. the euro exchange rate went down from 7.33 kn/EUR (31 December 2007) to 7.32 kn/EUR (31 December 2008). At the same time, the exchange rate of the kuna against the US dollar weakened by 3.6 %, from 4.98 kn/USD towards the end of 2007 to 5.16 kn/USD towards the end of 2008. On average the kuna appreciated against the euro by 1.6 % (from 7.34 kn/EUR to 7.22 kn/EUR), while its appreciation against the dollar amounted to 8 % (from 5.36 kn/USD to 4.93 kn/USD).

CASH FLOW

INA Group cash flow in m HRK	2007	2008
Operating activities	2,416	2,629
Investing activities	(2,884)	(4,354)
Financing activities	576	1,585
Net increase/decrease in cash	108	(140)

Cash flow from operations increased in 2008 compared to 2007 by 9 % and equalled 2,629 million kuna.

Cash flow from operations before the 2008 changes to working capital equalled 1,790 million kuna, which is a decrease of 846 million kuna compared to the previous year, mostly due to the loss incurred in the financial year. Reduction of working capital increased the funds available by 972 million kuna, which was mostly due to the increase in payables to suppliers (726 million kuna), decreased receivables (269

million kuna), but with a higher value of stocks (186 million kuna). Tax on profit paid in 2008 was 133 million kuna (tax payment made in 2008 related to profit earned in 2007).

Net outflow in investment activities equalled 4,354 million kuna, an increase of 1,470 million kuna compared to the net amount in 2007. Additional funds to finance investment expenditure were provided by increasing the net indebtedness of INA d.d. by 2,362 million kuna compared to the balance on 31 December 2007.

BALANCE SHEET

As of 31 December 2008, the value of total assets was 26.6 billion kuna, or 7 % above the amount recorded as of 31 December 2007. The value of fixed tangible assets and intangible assets increased by 17 %, mostly due to investments in exploration and developments in the Northern Adriatic, Egypt and Syria, and investments in refinery and retail network modernization in Croatia. Goodwill and investments in own companies and joint ventures went up by 7 million kuna. A reduction in ownership stakes (fixed assets) available for sale by 455 million kuna is mostly the result of the decreased market value of the Janaf d.d. shares. Deferred taxes were increased by 304 million kuna, mostly due to realized tax losses and an increase in the amount of expenditures not recognized for tax purposes (value adjustments of stocks and stakes available for sale in Janaf d.d.).

Stocks were valued at 2.4 billion kuna and were reduced by 23%, primarily due to decreased quantities and prices of imported oil and finished goods produced by the company. Net receivables from buyers amounted to 2.9 billion kuna as of 31 December 2008 and were 5 % lower compared to the balance at the end of the previous year.

Assets and ownership stakes (current assets) available for sale are valued at 359 million kuna and encompass assets required to run natural gas storage operations. In December 2008, INA d.d. established the company Podzemno Skladište Plina Okoli d.o.o. (100 % owned by INA d.d.) and

provided the company with the assets needed to run the business. On 30 January 2009, the company was taken over by Plinacro d.o.o., a company owned by the Republic of Croatia. The impact of the sale of PSP Okoli (514 million kuna in revenues) was included in the INA d.d. balance sheet, its parent company in 2008, but was neutralized/offset at the INA Group level. The impact of the sale will be recorded at the INA Group level in 2009.

As of 31 December 2008, total liabilities of the INA Group were 14.6 billion kuna, 29 % higher than in the previous year. The increase in liabilities is mostly due to an increase in the company's borrowing, standing at 7.1 billion kuna, compared to 4.9 billion kuna as of 31 December 2007. Loans were used for crude oil purchases and for capital investments. Long-term and short-term provisions equalled 1.6 billion kuna and were increased by 112 million kuna, primarily due to 154 million kuna in provisions for ENI taxes.

At the end of 2008, total net debt of the INA Group was 6.6 billion kuna, compared to 4.2 billion kuna at the end of 2007, while the net ratio between borrowed capital and equity⁸ increased from 23.5% to 35.3 % at the end of 2008. Increased indebtedness and loss incurred in the financial year had a negative impact on the ratio of borrowed capital to equity.

INCOME STATEMENT

CONTINUED ACTIVITIES

In 2008, net sales revenue from continued activities of the INA Group went up by 13 % and equalled 27,144 million kuna (5,503 million USD). Domestic sales, which represent 63 % of total sales, went up by 1,988 million kuna (13%) primarily due to increased sales prices, which was partly offset by lower sales volume. Export revenues were 10,179 million kuna, up by 12 % compared to 2007, primarily due to increased average sales prices and revenues of the company Rotary, which merged towards the end of 2007.

Restrictions related to pricing based on the formula to be used in calculating retail prices of oil derivatives (price cap restriction) were another factor that had a negative impact

on the 2008 performance and amounted to 218 million kuna. Coupled with the negative impact produced by LPG regulated prices, which amounted to 312 million kuna, the total unrealized revenue was 530 million kuna.

Operating expenses for continued activities were 27,149 million kuna, an increase of 14%, or 3,368 million kuna.

Cost of raw materials, material and energy went up in 2008 by 6 % compared to the previous year, with the cost of imported oil up by 11 % due to an average increase in the price of crude oil imported for refinery processing of 30 % (average price of Brent FOB crude on the global market was up by 33.8%), coupled with a 15 % lower processing volume. The cost of goods sold was 3.9 billion kuna, an increase of 37 %, mostly due to higher level of imports of

⁸ Net debt over net debt plus equity including minority stakes

refining products. The cost of services went up by 20 % to reach 4.2 billion kuna. Depreciation was increased by 5 % to reach 1.4 billion kuna, primarily due to the completion of projects and their recording as company assets. Value adjustments and provisions equalled 883 million kuna, an increase of 89 %, primarily due to oil reserves revaluation and a stronger negative impact of the IAS 36 implementation. Total cost of personnel went up by 13 % due to a 10.4 % average increase in gross salaries and an increase in headcount (primarily due to the acquisition of the company Rotary).

The 2008 financial activities incurred a loss of 780 million kuna, while there was a profit of 105 million kuna from the same activities in the previous year. In 2008, increased debt and US dollar appreciation resulted in 409 million kuna in currency exchange losses, while last year the performance was impacted by 474 million kuna in currency exchange gains. Interest expense was 210 million kuna, a decrease of 34 million kuna compared to the previous year, while other financial expenses were 161 million kuna, or 36 million kuna more than in 2007.

The 2008 tax on profit from continued operations was 178 million kuna, which is a decrease of 186 million kuna compared to 2007, due to a lower profit level.

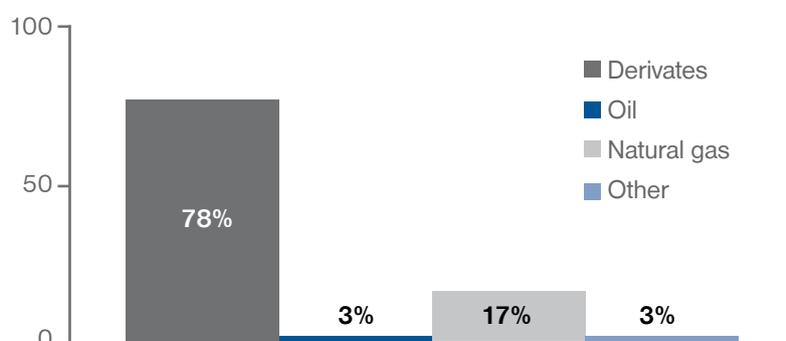
DISCONTINUED ACTIVITIES

Sales revenue from discontinued activities was 1,664 million kuna, a decrease of 89 million kuna compared to the previous year. Domestic sales revenue was 1,619 million kuna, an increase of 129 million kuna (9%), while revenue from natural gas sales in Italy was 45 million kuna, a decrease of 218 million kuna.

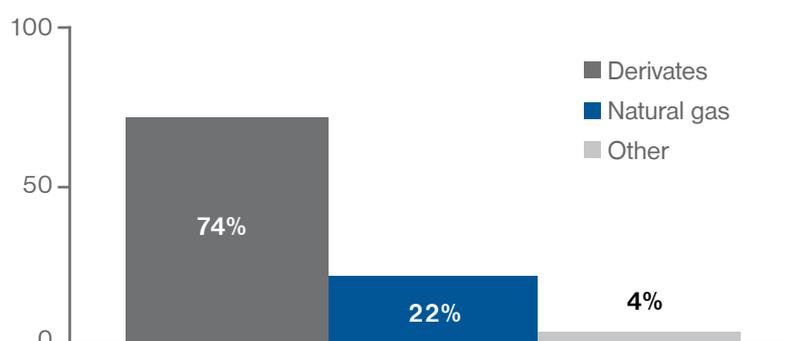
In 2008, INA d.d. continued to see a negative impact on its profit of regulated prices of natural gas on the domestic market, preventing a full transfer of the gas import price to its domestic buyers.

Operating expenses for discontinued activities were 3,366 million kuna, an increase of 1,005 million kuna (43%) compared to 2007, mostly due to the higher purchase prices of gas sold (higher volume and price) and an increase in the value adjustments of imported gas stocks.

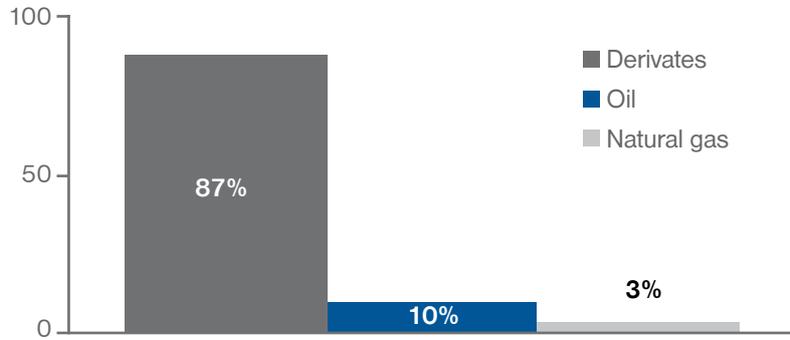
2008 total sales breakdown



2008 domestic sales breakdown



2008 export breakdown



INA Group - KEY FINANCIAL INDICATORS

	2007	2008
KEY FINANCIAL DATA		
CONTINUED OPERATIONS		
Total sales revenue (in million HRK)	24,095	27,144
EBITDA (in million HRK)	3,305	3,564
Profit from operations (in million HRK)	1,537	1,310
Profit before taxation (in million HRK)	1,642	530
Net profit (in million HRK) – continued operations	1,278	352
Return on capital (ROE) %	12.0	4.4
Return on capital employed (ROCE) %	8.6	7.0
DISCONTINUED OPERATIONS		
Net profit (in million HRK)	(407)	(1,450)
TOTAL OPERATIONS		
Net profit attributable to owner of capital (in million HRK)	869	(1,099)
Net cash from operations (in million HRK)	2,416	2,629
Total investment in fixed assets (in million HRK)	2,896	4,371
KEY OPERATING DATA		
Net proven reserves		
- Croatia – onshore (MMboe)	177,4	173,9
- Croatia – offshore (MMboe)	81,9	67,1
- Syria (MMboe)	3,8	7,7
- Africa (MMboe)	7,3	5,9
Total hydrocarbons (MMboe)	270,4	254,6
AVERAGE DAILY PRODUCTION		
- oil (Mboe/day)	17,1	16,4
- natural gas condensate (Mboe/day)	8,1	8,1
- natural gas (Mboe/day)	40,1	34,3
Total (Mboe/day)	65,3	58,8
NUMBER OF PETROL STATIONS		
-Croatia	433	435
- region*	49	50
Total number of petrol stations	482	485

*excluding inaccessible petrol stations



FINANCIAL REPORT





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INA - INDUSTRIJA NAFTE d.d. Zagreb and INA GROUP

**Consolidated and unconsolidated Financial Statements and Notes for the year ended
31 December 2008 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").

International Accounting Standard 1 requires that financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the Preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards. The Board is also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance
- make an assessment of the Company's ability to continue as a going concern.

After making enquiries, the Board makes a judgement, at

the time of approving the financial statements, that there is a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason the Board continues to adopt the going concern basis in preparing the financial statements.

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
17 March 2009

INDEPENDENT AUDITORS' REPORT

To the Shareholders of INA - Industrija Naft e d.d. Zagreb

We have audited the accompanying consolidated and unconsolidated financial statements of INA - Industrija Naft e d.d. Zagreb ("the Company") and its subsidiaries ("the Group"), set out on pages 4 to 121, which comprise the consolidated and unconsolidated balance sheets as at 31 December 2008, and the consolidated and unconsolidated income statements, consolidated and unconsolidated statements of changes in equity and consolidated and unconsolidated cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evi-

dence 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 2008, 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
17 March 2009

INA GROUP CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008 (all amounts in HRK millions)

	Notes	2008	2007
Continuing operation			
Sales revenue			
a) domestic		16,965	14,977
b) exports		10,179	9,118
Total sales revenue	3	27,144	24,095
Income from own consumption of products and services		677	695
Other operating income		638	528
Total operating income		28,459	25,318
Changes in inventories of finished products and work in progress		(51)	(28)
Cost of raw materials and consumables		(13,765)	(13,029)
Depreciation and amortisation	4	(1,371)	(1,302)
Other material costs		(2,732)	(2,391)
Service costs		(1,515)	(1,138)
Staff costs	5	(2,922)	(2,576)
Cost of other goods sold		(3,910)	(2,851)
Impairment and charges		(829)	(366)
Provision for charges and risks (net)		(54)	(100)
Operating expenses		(27,149)	(23,781)
Profit from operations		1,310	1,537
Finance income	6	411	746
Finance costs	7	(1,191)	(641)
Net (loss)/profit from financial activities		(780)	105
Profit before tax		530	1,642
Income tax expense	8	(178)	(364)
Profit for the year from continuing operation		352	1,278
Discontinued operation			
Loss for the year from discontinued operation	9	(1,450)	(407)
(Loss)/profit for the year		(1,098)	871

	Notes	2008	2007
Attributable to:			
Equity holders of the parent		(1,099)	869
Minority interest		1	2
		(1,098)	871

Earnings/(loss) per share

Basic and diluted earnings/(loss) per share (kuna per share) from continuing and discontinued operations	10	(109.9)	86.9
Basic and diluted earnings per share (kuna per share) from continuing operations		35.1	127.6

Signed on behalf of the Group on 17 March 2009 by:

Zalán Bács



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

Tomislav Dragičević



President of the Management Board

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

INA MATICA UNCONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008 (all amounts in HRK millions)

	Notes	2008	2007
Continuing operation			
Sales revenue			
a) domestic		16,114	13,485
b) exports		7,628	7,413
Total sales revenue	3	23,742	20,898
Income from own consumption of products and services		14	12
Other operating income		983	640
Total operating income		24,739	21,550
Changes in inventories of finished products and work in progress		(55)	(18)
Cost of raw materials and consumables		(13,332)	(12,409)
Depreciation and amortisation	4	(1,100)	(1,091)
Other material costs		(1,856)	(1,850)
Service costs		(1,158)	(1,187)
Staff costs	5	(1,752)	(1,634)
Cost of other goods sold		(3,187)	(1,366)
Impairment and charges		(794)	(315)
Provision for charges and risks (net)		(26)	(70)
Operating expenses		(23,260)	(19,940)
Profit from operations		1,479	1,610
Finance income	6	342	628
Finance costs	7	(1,051)	(529)
Net (loss)/profit from financial activities		(709)	99
Profit before tax		770	1,709
Income tax expense	8	(160)	(312)
Profit for the year from continuing operation		610	1,397
Discontinued operation			
Loss for the year from discontinued operation	9	(1,450)	(407)
(Loss)/profit for the year		(840)	990

	Notes	2008	2007
Earnings/(loss) per share			
Basic and diluted earnings/(loss) per share (kuna per share) from continuing and discontinued operations	10	(84.0)	99.0
Basic and diluted earnings per share (kuna per share) from continuing operations		61.0	139.7

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

Tomislav Dragičević



President of the Management Board

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INA GROUP CONSOLIDATED BALANCE SHEET

At 31 December 2008 (all amounts in HRK millions)

ASSETS	Notes	2008	2007
Non-current assets			
Intangible assets	11	680	661
Property, plant and equipment	12	17,519	14,891
Goodwill	13	197	163
Investments in associates and joint ventures	15	76	124
Other investments	16	83	62
Long-term receivables	17	166	177
Derivative financial instruments	42	78	226
Deferred tax	8	341	37
Available for sale assets	18	201	656
Total non - current assets		19,341	16,997
Current assets			
Inventories	19	2,390	3,123
Trade receivables, net	20	2,914	3,072
Other receivables	21	719	674
Derivative financial instruments	42	106	97
Other current assets	22	38	50
Prepaid expenses and accrued income	23	167	183
Cash and cash equivalents	24	579	720
		6,913	7,919
Assets classified as held for sale	25	359	-
Total current assets		7,272	7,919
TOTAL ASSETS		26,613	24,916

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& Executive Director of Finance Function

Tomislav Dragičević



President of the Management Board

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

INA GROUP CONSOLIDATED BALANCE SHEET

At 31 December 2008 (all amounts in HRK millions)

EQUITY AND LIABILITIES	Notes	2008	2007
Capital and reserves			
Share capital	33	9,000	9,000
Revaluation reserve	34	(135)	229
Other reserves	35	2,307	2,301
Retained earnings	36	855	2,104
Equity attributable to equity holders of the parent		12,027	13,634
Minority interest	37	10	9
TOTAL EQUITY		12,037	13,643
Non – current liabilities			
Long-term loans	29	4,554	3,130
Other non-current liabilities	30	138	144
Employee benefit obligation	32	107	91
Provisions	31	1,380	1,406
Total non-current liabilities		6,179	4,771
Current liabilities			
Bank loans and overdrafts	26	2,492	1,664
Current portion of long-term loans	26	98	129
Trade payables	27	3,815	3,532
Taxes and contributions	27	1,211	648
Other current liabilities	27	342	269
Accruals and deferred income	28	237	198
Employee benefit obligation	32	17	15
Provisions	31	185	47
Total current liabilities		8,397	6,502
TOTAL LIABILITIES		14,576	11,273
TOTAL EQUITY AND LIABILITIES		26,613	24,916

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

Tomislav Dragičević



President of the Management Board

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

INA MATICA UNCONSOLIDATED BALANCE SHEET

At 31 December 2008 (all amounts in HRK millions)

ASSETS	Notes	2008	2007
Non-current assets			
Intangible assets	11	663	655
Property, plant and equipment	12	15,011	12,623
Investment in subsidiaries	14	1,259	1,286
Investments in associates and joint ventures	15	189	189
Other companies	16	375	426
Long-term receivables	17	279	290
Derivative financial instruments	42	78	226
Deferred tax	8	327	34
Available for sale assets	18	201	656
Total non-current assets		18,382	16,385
Current assets			
Inventories	19	1,806	2,581
Intercompany receivables		584	706
Trade receivables, net	20	1,799	2,092
Other receivables	21	616	583
Derivative financial instruments	42	106	97
Other current assets	22	144	90
Prepaid expenses and accrued income	23	115	151
Cash and cash equivalents	24	318	299
		5,488	6,599
Assets classified as held for sale	25	837	-
Total current assets		6,325	6,599
TOTAL ASSETS		24,707	22,984

Signed on behalf of the Group on 17 March 2009 by:

Zalán Bács



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

Tomislav Dragičević



President of the Management Board

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

INA MATICA UNCONSOLIDATED BALANCE SHEET

For the year ended 31 December 2008 (all amounts in HRK millions)

EQUITY AND LIABILITIES	Notes	2008	2007
Capital and reserves			
Share capital	33	9,000	9,000
Revaluation reserve	34	(135)	229
Other reserves	35	1,952	1,952
Retained earnings	36	420	1,410
TOTAL EQUITY		11,237	12,591
Non-current liabilities			
Long term loans	29	4,331	2,988
Other non-current liabilities	30	134	144
Employee benefit obligation	32	76	65
Provisions	31	1,313	1,331
Total non-current liabilities		5,854	4,528
Current liabilities			
Bank loans and overdrafts	26	249	97
Current portion of long-term loans	26	47	45
Intercompany payables		3,288	3,096
Trade payables	27	2,574	1,876
Taxes and contributions	27	1,088	535
Other current liabilities	27	155	86
Accruals and deferred income	28	56	97
Employee benefit obligation	32	11	8
Provisions	31	148	25
Total current liabilities		7,616	5,865
TOTAL LIABILITIES		13,470	10,393
TOTAL EQUITY AND LIABILITIES		24,707	22,984

Signed on behalf of the Group on 17 March 2009 by:

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

Tomislav Dragičević



President of the Management Board

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

INA GROUP CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008 (all amounts in HRK millions)

	Share capital	Other reserves	Revaluation reserves	Retained earnings	Attributable to equity holders of the parent	Minority interest	Total
Balance at 1 January 2007	9,000	2,347	66	1,366	12,779	7	12,786
Gains on available-for-sale investments	-	-	163	-	163	-	163
Dividends paid	-	-	-	(131)	(131)	-	(131)
Exchange differences arising from foreign operations	-	(46)	-	-	(46)	-	(46)
<i>Net income/(expense) recognised directly in equity</i>	-	(46)	163	(131)	(14)	-	(14)
Profit for the year	-	-	-	869	869	2	871
<i>Total recognised income and expense</i>	-	(46)	163	738	855	2	857
Balance at 31 December 2007	9,000	2,301	229	2,104	13,634	9	13,643
Loss on available-for-sale investments	-	-	(364)	-	(364)	-	(364)
Dividends paid	-	-	-	(150)	(150)	-	(150)
Exchange differences arising from foreign operations	-	6	-	-	6	-	6
<i>Net income/(expense) recognised directly in equity</i>	-	6	(364)	(150)	(508)	-	(508)
Profit for the year	-	-	-	(1,099)	(1,099)	1	(1,098)
<i>Total recognised income and expense</i>	-	6	(364)	(1,249)	(1,607)	1	(1,606)
Balance at 31 December 2008	9,000	2,307	(135)	855	12,027	10	12,037

Signed on behalf of the Group on 17 March 2009 by:

Zalán Bács

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

Tomislav Dragičević

President of the Management Board

The accompanying accounting policies 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 2008 (all amounts in HRK millions)

	Share capital	Other reserves	Revaluation reserves	Retained earnings	Total
Balance at 1 January 2007	9,000	1,952	66	551	11,569
Gains on available-for-sale investments	-	-	163	-	163
Dividends paid	-	-	-	(131)	(131)
<i>Net income/(expense) recognized directly in equity</i>	-	-	163	(131)	32
Profit for the year	-	-	-	990	990
<i>Total recognised income and expense</i>	-	-	163	859	1,022
Balance at 31 December 2007	9,000	1,952	229	1,410	12,591
Loss on available-for-sale investments	-	-	(364)	-	(364)
Dividends paid	-	-	-	(150)	(150)
<i>Net income/(expense) recognized directly in equity</i>	-	-	(364)	(150)	(514)
Profit for the year	-	-	-	(840)	(840)
<i>Total recognised income and expense</i>	-	-	(364)	(990)	(1,354)
Balance at 31 December 2008	9,000	1,952	(135)	420	11,237

Signed on behalf of the Group on 17 March 2009 by:

Zalán Bács



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

Tomislav Dragičević



President of the Management Board

The accompanying accounting policies and notes form an integral part of this unconsolidated statement of changes equity.

INA GROUP CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008 (all amounts in HRK millions)

	Notes	2008	2007
(Loss)/profit for the year		(1,098)	871
Adjustments for:			
Depreciation and amortisation		1,371	1,302
Income tax (benefit)/expense recognized in (loss)/profit		(184)	262
Impairment charges (net)		991	381
Gain on sale of property, plant and equipment		(10)	(9)
Gain on sale of shares or stakes		-	(17)
Foreign exchange loss/(gain)		409	(402)
Interest expense (net)		330	333
Other finance expense recognised in profit		152	45
Change in provision for charges and risks and other non-cash items		(171)	(130)
		1,790	2,636
Movements in working capital			
Increase in inventories		(186)	(448)
Decrease/(increase) in receivables and prepayments		269	(479)
Increase in trade and other payables		726	860
Increase in provisions		163	15
Cash generated from operations		2,762	2,584
Taxes paid		(133)	(168)
Net cash inflow from operating activities		2,629	2,416
Cash flows used in investing activities			
Payments for property, plant and equipment		(4,079)	(2,354)
Payments for intangible assets		(292)	(274)
Proceeds from sale of non-current assets		-	13
Acquisition of investments in associates and joint ventures and other companies		-	(279)
Dividends received from companies classified as available for sale and from other companies		2	2
Investments and loans to third parties, net		15	8
Net cash used for investing activities		(4,354)	(2,884)

	Notes	2008	2007
Cash flows from financing activities			
Additional long-term borrowings		1,331	3,700
Repayment of long-term borrowings		(112)	(2,360)
Additional short-term borrowings		15,853	11,329
Repayment of short-term borrowings		(15,046)	(11,629)
Interest paid on long-term loans		(150)	(152)
Other long-term liabilities, net		(6)	(9)
Dividends paid		(150)	(131)
Interest paid on short-term loans and other financing charges		(135)	(172)
Net cash from financing activities		1,585	576
Net increase in cash and cash equivalents		(140)	108
At 1 January		720	630
Effect of foreign exchange rate changes		(1)	(18)
At 31 December	24	579	720

Signed on behalf of the Group on 17 March 2009 by:

Zalán Bács



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

Tomislav Dragičević



President of the Management Board

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

INA MATICA UNCONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2008 (all amounts in HRK millions)

	Notes	2008	2007
(Loss)/profit for the year		(840)	990
Adjustments for:			
Depreciation and amortisation		1,101	1,091
Income tax (benefit)/expense recognized in (loss)/profit		(202)	210
Impairment charges (net)		952	330
Gain on sale of property plant and equipment		(18)	(5)
Gain on sale of shares or stakes		(8)	(17)
Foreign exchange loss/(gain)		398	(388)
Interest expense (net)		289	341
Other finance expense recognised in profit		140	29
Change in provision for charges and risks and other non-cash items		(757)	(475)
		1,055	2,106
Movements in working capital			
Increase in inventories		(155)	(284)
Decrease/(increase) in receivables and prepayments		446	(511)
Increase in trade and other payables		1,209	633
Increase in provisions		274	33
Cash generated from operations		2,829	1,977
Taxes paid		(56)	(137)
Net cash inflow from operating activities		2,773	1,840
Cash flows used in investing activities			
Payment for property, plant and equipment		(3,547)	(1,995)
Payment for intangible assets		(282)	(267)
Proceeds from sale of non-current assets		21	5
Proceeds from sale of investments		9	18
Aquisition for investments in subsidiaries, associates and joint ventures and other companies		(24)	(132)
Dividends received from companies classified as available for sale and from other companies		2	3
Interest received		-	-
Investments and loans to subsidiaries, net		74	(423)
Net cash used in investing activities		(3,747)	(2,791)

	Notes	2008	2007
Cash flows from financing activities			
Additional long-term borrowings		1,200	3,695
Repayment of long-term borrowings		(43)	(2,289)
Additional short-term borrowings		571	243
Repayment of short-term borrowings		(419)	(305)
Interest paid on long-term loans		(138)	(145)
Other long-term liabilities, net		(10)	(8)
Interest paid on short term loans and other financing charges		(17)	(44)
Dividends paid		(150)	(131)
Net cash from financing activities		994	1,016
Net increase in cash and cash equivalents		20	65
At 1 January		299	226
Effect of foreign exchange rate changes		(1)	8
At 31 December	24	318	299

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Zalán Bács



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& Executive Director of Finance Function

Tomislav Dragičević



President of the Management Board

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2008 (all amounts in HRK millions)

1. GENERAL

History and incorporation

INA - Industrija nafte d.d. Zagreb (INA), also known under the name INA Matica, is a joint-stock company whose shareholders are MOL Hungarian Oil and Gas Public Limited Company, holding 47.16 percent of the INA shares, and the Republic of Croatia, with 44.84 percent of the INA shares. 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 were determined by decisions of the Croatian Government, agreed to by the Croatian Parliament (Official Gazette Nos. 47/02, 77/04, 66/05, 104/06, 113/06, 122/06, 129/06, 77/07, 94/07, 103/07 and 102/08).

During 2002, the Government solicited for, and received, bids from a number of parties interested in acquiring a strategic investment of 25 % plus one share of INA. On 10 November 2003, a transaction was completed whereby MOL Rt (MOL) acquired 25 % plus one share of INA.

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

In its session of 22 July 2005, the Croatian Government adopted a decision on forming a Commission to continue the privatisation process of INA - Industrija nafte d.d. (a new Commission member was appointed by a subsequent decision dated 26 August 2005 amending the initial decision). In 2006 INA went into the next privatization stage. The Government of the Republic of Croatia made available for sale 1,700,000 ordinary shares of INA - Industrija nafte d.d., in a public offering to (1) Croatian citizens with priority rights and on preferential terms and (2) to the extent any shares are not taken up in the Preferential Offering, natural persons, domestic legal persons and foreign investors in

Croatia, without priority rights and preferential terms. The shares became publicly traded on 1 December 2006. In 2007, based on the Government Decision on the Manner of Sale, Price, Special Privileges, Timing and Terms of the Sale to the existing and former employees of INA – Industrija nafte d.d., dated 19 July 2007 (Official Gazette 77/07), pursuant to the Law on the Privatization of INA – Industrija nafte d.d. (Official Gazette No. 32/2002) and the Amendments to the Decision of 7 September 2007 (Official Gazette No. 94/07), the Croatian Government decided to sell up to 7 % of the shares of INA – Industrija nafte d.d. (700,000 shares). Based on the Government Decisions, the existing and former employees have purchased 628,695 shares. On 3 December 2007, 66,754 supplementary shares were transferred from the account of the Croatian Government to the account of the eligible investors under the Decision of the Croatian Government of 14 September 2006 and the

Amendments to the Decision of 13 October 2006 and 10 November 2006.

On 14 July 2008, MOL Hungarian Oil and Gas Public Limited Company sent, together with the Republic of Croatia, a letter of intent to the Croatian Financial Services Supervision Agency, announcing a voluntary offer to take over all the shares not held by MOL or the Republic of Croatia.

On 8 September 2008, the Croatian Financial Services Supervision Agency published a decision in the Official Gazette 102/08, by which it approved the publication of MOL's offer to take over the public joint stock company INA.

The offer placed by MOL was accepted by 26,835 shareholders. Following the takeover offer, the total number of ordinary bearer shares held by MOL is 4,715,538, accounting for 47.15538 percent of the total share capital, representing 47.15538 percent of the votes in the General Meeting of Shareholders.

The ownership structure of the INA Group as of 31 December 2008:

	2008.		2007.	
	Number of shares	Ownership in %	Number of shares	Ownership in %
Government of the Republic of Croatia	4,483,552	44.84	4,484,918	44.85
Zagrebačka banka d.d./Unicreditbank Hungary Zrt, for MOL Zrt, Hungary	4,715,538	47.16	2,500,001	25.00
Croatian Homeland War Veterans Fund Zagrebačka banka d.d. (treasurer)/	-	-	700,000	7.00
Citibank N.A. (GDR depositor)	15,000	0.15	204,307	2.04
Small shareholders (less than 2 % individually)	785,910	7.86	2,110,774	21.11
	10,000,000	100	10,000,000	100

Distribution of dividends and bonuses to the Supervisory Board and the Management Board in accordance with the decision made in the General Meeting of Shareholders

In the General Meeting of the Shareholders of INA- Industrija nafte d.d., held on 14 May 2008, a decision on the allocation of net profits for the year 2007 was made, according to which HRK 150 million, or HRK 15 per share, were to be distributed to shareholders (2006: total distributable profit amounted to HRK 131 million, or HRK 13.08 per share).

In 2008 and 2007, no decisions were made in the General Meeting of Shareholders regarding the payment of bonuses to the Supervisory Board and the Management Board members.

Principal activities

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

- exploration and production of oil and gas deposits, primarily onshore and offshore within Croatia; other licence interests are held in Angola, Egypt, Syria, Namibia and Iran;
- 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 499 retail outlets in operation as of 31 December 2008 (of which 449 are in Croatia and 50 are outside Croatia);

- trading in crude oil and petroleum products through a network of foreign subsidiaries and representative offices, principally in London, Ljubljana and Sarajevo;
- service activities incidental to on-shore and off-shore oil extraction through its drilling and oilfield services subsidiary Croscos 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 2008 there were 16,632 persons employed at the Group (15,855 at 31 December 2007). As at 31 December 2008 there were 10,108 persons employed at the Ina Matica (10,123 at 31 December 2007).

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

Directors, Management and Supervisory Board

Supervisory Board

until 1 February 2007

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

Supervisory Board

from 1 February 2007

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

On 29 October 2007, the mandate of Mr. Zoltan Áldott

as Deputy Chairman was extended for the following four years.

On 2 April 2008, the mandates of Ivan Šuker, Damir Polančec, Tomislav Ivić and Đuro Dečak were extended for the following four years.

By decision of the Supervisory Board of 29 October 2008, Mr. Damir Polančec was elected as the chairman of the Supervisory Board instead of Mr. Ivan Šuker.

Management Board

From 1 January 2007 until 17 June 2008

dr. sc. Tomislav Dragičević	President of the Board
Zalán Bács	Vice-President of the Board - Executive Director Finance Function
prof. dr.sc. Mirko Zelić	Member of the Board Business Segment for Oil and Gas Exploration and Production
Josip Petrović	Member of the Board - Executive Director Business Segment Refining and Marketing
Niko Paulinović	Member of the Board - Executive Director Business Segment Retail Services
Tomislav Thür	Member of the Board - Director Corporate Processes Function
Sándor Lendvai	Member of the Board - Director Corporate Services Function



Management Board*from 18 June 2008*dr.sc. Tomislav Dragičević
Zalán BácsPresident of the Board
Vice-President of the
Board - Executive
Director Finance
Function

prof. dr.sc. Mirko Zelić

Member of the Board
Business Segment
for Oil and Gas
Exploration and
Production

Josip Petrović

Member of the Board
- Executive Director
Business Segment
Refining and
Marketing

Niko Paulinović

Member of the Board
- Executive Director
Business Segment
Retail Services

Tomislav Thür

Member of the Board
- Director Corporate
Processes Function

Darko Markotić

Member of the Board
- Director Corporate
Services Function

By decision of the Supervisory Board of 19 September 2007, the mandate of Mr. Tomislav Dragičević was extended from 30 October 2007 for the following four years.

By decision of the Supervisory Board of 18 June 2008, the mandates of prof. dr.sc. Mirko Zelić, Tomislav Thür, Josip Petrović and Niko Paulinović were extended from 26 July 2008 for the following four years, and the mandate of Darko Markotić was given until 31 December 2010.

Secretary**during 2007 until 17 June 2008**

Darko Markotić, BLL

Secretary of INA d.d.

from 18 June 2008

Nives Troha, BLL

Secretary of INA d.d.



2. ACCOUNTING POLICIES

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

Presentation of the financial statements

These consolidated financial statements are prepared on the consistent presentation and classification basis. When the presentation or classification of items in the consolidated financial statements is amended, comparative amounts are reclassified unless the reclassification is impracticable.

Basis of accounting

The Company maintains its accounting records in the Croatian language, in Croatian kuna and in accordance with Croatian law and the accounting principles and practices observed by enterprises in Croatia. The accounting records of the Company's subsidiaries in Croatia and abroad are maintained in accordance with the requirements of the respective local jurisdictions.

The Company's and Group's financial statements are prepared under the historical cost convention, modified by the revaluation of certain assets and liabilities under conditions of hyperinflation in the period to 1993, and in accordance with International Financial Reporting Standards as published by the International Accounting Standards Board, and the Croatian law.

Adoption of new and revised standards

Standards and Interpretations effective in the current period

In 2007, the Company adopted IFRS 7 "Financial Instru-

ments: Disclosures" which is effective for annual reporting periods beginning on or after 1 January 2007, and the consequential amendments to IAS 1 "Presentation of Financial Statements".

The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the Company's financial instruments and management of capital.

The eight interpretations issued by the International Accounting Standards Board (the IASB) are effective for the current period and they are as follows: IFRIC 7 "Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies"; IFRIC 8 "Scope of IFRS 2"; IFRIC 9 "Reassessment of Embedded Derivatives"; IFRIC 10 "Interim Financial Reporting and Impairment"; IFRIC 11 "IFRS 2: Group and Treasury Share Transactions" - effective for annual reporting periods beginning on or after 1 March 2007; IFRIC 12 "Service Concession Arrangements" - effective for annual reporting periods beginning on 1 January 2008; IFRIC 14 "IAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" - effective for annual reporting periods beginning on or after 1 January 2008 and IFRIC 13 "Customer Loyalty Programs" - effective for annual reporting periods beginning on or after 1 July 2008.

Adoption of those interpretations did not cause changes in Accounting policies of the Company.

Adoption of new and revised standards (continued)

Standards and Interpretations in issue not yet adopted

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

IFRS 2	Share-based Payment - Amendment relating to vesting conditions and cancellations	Annual periods beginning on or after 1 January 2009
IFRS 3	Business Combinations - Comprehensive revision on applying the acquisition method	Annual periods beginning on or after 1 July 2009
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations - Amendments resulting from May 2008 Annual Improvements to IFRSs	Annual periods beginning on or after 1 July 2009
IFRS 8	Operating Segments	Annual periods beginning on or after 1 January 2009

IAS 1	Presentation of Financial Statements - Comprehensive revision including requiring a statement of comprehensive income	Annual periods beginning on or after 1 January 2009
IAS 1	Presentation of Financial Statements - Amendments relating to disclosure of puttable instruments and obligations arising on liquidation	Annual periods beginning on or after 1 January 2009
IAS 1	Presentation of Financial Statements - Amendments resulting from May 2008 Annual Improvements to IFRSs	Annual periods beginning on or after 1 January 2009
IAS 16	Property, Plant and Equipment - Amendments resulting from May 2008 Annual Improvements to IFRSs	Annual periods beginning on or after 1 January 2009
IAS 19	Employee Benefits - Amendments resulting from May 2008 Annual Improvements to IFRSs	Annual periods beginning on or after 1 January 2009
IAS 20	Government Grants and Disclosure of Government Assistance – Amendments resulting from May 2008 Annual Improvements to IFRSs	Annual periods beginning on or after 1 January 2009
IAS 23	Borrowing Costs - Comprehensive revision to prohibit immediate expensing	Borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after 1 January 2009
IAS 23	Borrowing Costs - Amendments resulting from May 2008 Annual Improvements to IFRSs	Annual periods beginning on or after 1 January 2009
IAS 27	Consolidated and Separate Financial Statements - Consequential amendments arising from amendments to IFRS 3	Annual periods beginning on or after 1 July 2009
IAS 27	Consolidated and Separate Financial Statements - Amendment relating to cost of an investment on first-time adoption	Annual periods beginning on or after 1 January 2009.
IAS 27	Consolidated and Separate Financial Statements - Amendments resulting from May 2008 Annual Improvements to IFRSs	Annual periods beginning on or after 1 January 2009
IAS 28	Investments in Associates - Consequential amendments arising from amendments to IFRS 3	Annual periods beginning on or after 1 July 2009
IAS 28	Investments in Associates - Amendments resulting from May 2008 Annual Improvements to IFRSs	Annual periods beginning on or after 1 January 2009
IAS 29	Financial Reporting in Hyperinflationary Economies - Amendments resulting from May 2008 Annual Improvements to IFRSs	Annual periods beginning on or after 1 January 2009

IAS 31	Interests in Joint Ventures - Consequential amendments arising from amendments to IFRS 3	Annual periods beginning on or after 1 July 2009
IAS 31	Interests in Joint Ventures - Amendments resulting from May 2008 Annual Improvements to IFRSs	Annual periods beginning on or after 1 January 2009
IAS 32	Financial Instruments: Presentation - Amendments relating to puttable instruments and obligations arising on liquidation	Annual periods beginning on or after 1 January 2009
IAS 36	Impairment of Assets - Amendments resulting from May 2008 Annual Improvements to IFRSs	Annual periods beginning on or after 1 January 2009
IAS 38	Intangible Assets - Amendments resulting from May 2008 Annual Improvements to IFRSs	Annual periods beginning on or after 1 January 2009
IAS 39	Financial Instruments: Recognition and Measurement - Amendments resulting from May 2008 Annual Improvements to IFRSs A	Annual periods beginning on or after 1 January 2009
IAS 39	Financial Instruments: Recognition and Measurement - Amendments for eligible hedged items	Annual periods beginning on or after 1 July 2009
IAS 40	Investment Property - Amendments resulting from May 2008 Annual Improvements to IFRSs	Annual periods beginning on or after 1 January 2009
IAS 41	Agriculture - Amendments resulting from May 2008 Annual Improvements to IFRSs	Annual periods beginning on or after 1 January 2009
IFRIC 15	Agreements for the Construction of Real Estate	Annual periods beginning on or after 1 January 2009

The Management anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group except for:

- additional segment disclosures when IFRS 8 comes into effect for periods commencing on or after 1 January 2009; and
- treatment of acquisition of subsidiaries when IFRS 3 comes into effect for business combinations for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 July 2009.

Basis of Parent Company financial statement (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 inter-divisional transactions and balances are eliminated.

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

The consolidated financial statements incorporate the financial statements of INA d.d. (INA 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.

Basis of consolidated financial statements (INA Group)

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

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

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

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset

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

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

Investments in associates

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

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are not recognised, unless the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Interests in joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control, that is when the strategic

financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control.

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

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities. The Group reports its interests in jointly controlled entities using equity method.

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

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

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

Goodwill

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

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the

unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

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

Oil and gas properties

Exploration and appraisal costs

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

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

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

Fields under development

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

Depreciation

Capitalised exploration and development costs of producing domestic and foreign oil and gas properties are depreciated using a unit of production method, in the proportion of actual production for the period to the total estimated remaining commercial reserves of the field.

Commercial reserves

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

Reporting currency

The Company's and the Group's financial statements are prepared in Croatian kuna (HRK). The effective exchange rate of the Croatian currency (Kuna) at 31 December 2008

was 7.32 kunas per 1 Euro and 5.16 kunas per 1 United States dollar (31 December 2007 - 7.33 kunas per 1 Euro and 4.99 kunas per 1 United States dollar). Average exchange rate in 2008 was 7.22 kunas per 1 EUR and 4.93 kunas per 1 US\$ (2007 7.34 kunas per 1 EUR and 5.37 kunas per 1 US\$).

Property, plant and equipment

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

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

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

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

Expenditures incurred after property, plant and equipment have been put into operation are normally charged to income statement in the period in which the costs are incurred.

In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard performance, the expenditures are capitalised as an additional cost of property, plant and equipment. Costs eligible for capitalisation include costs of periodic, planned significant inspections and overhauls necessary for further operation.

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

Impairment of tangible and intangible assets

Tangible and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is charged to the income statement.

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

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

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

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

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

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

relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

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

Finance and operating leases

The Company and the Group have no finance lease arrangements. No significant new operating lease agreements were entered into during 2008 and 2007. The Company and the Group recognise leases payable under operating leases on a straight-line basis over the term of the relevant lease, unless there is another systematic basis that would be more representative of the time pattern of the user's benefit.

Debtors and prepayments

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

The allowance is recorded by the Company on the basis of decisions made by executive directors, which are based on the assessments of responsible persons of each business segment regarding the recoverability of each of the segments' receivables. All short-term receivables not covered by a decision of executive directors are fully provided against, in accordance with the decision of the Management Board. An appropriate allowance for estimated unrecoverable amounts is recognised in profit or loss where there is an objective evidence that an asset should be impaired.

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 97% of future 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 estimated average future 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 recognised in profit or loss in the period in which they are incurred.

Foreign currencies

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



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

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

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

Retirement Benefit and Jubilee Costs

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

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

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

Taxation

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

Current tax

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

Deferred tax

Deferred tax is recognised on differences between the



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

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

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

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

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

Current and deferred tax for the period

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity, or where they arise from the initial accounting for a business combination.

In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

Financial assets

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

Financial assets are classified into '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.

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 42. 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 ac-

tive 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.

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

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

Investments

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

Financial liabilities

Financial liabilities are classified as other financial liabilities. Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with inter-

est expense recognised on an effective yield basis.

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

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Embedded derivatives

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

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

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

Segmental disclosures

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

Provisions for decommissioning and other obligations

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow

of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of discounting is material, the amount of the provision is the present value of the expenditures expected to be required to settle the obligation, determined using the estimated risk free interest rate as the discount rate. Where discounting is used, the reversal of such discounting in each year is recognised as a financial expense and the carrying amount of the provision increases in each year to reflect the passage of time.

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

Use of estimates in the preparation of financial statements

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

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for customer returns, rebates and other similar allowances.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract. The stage of completion of the contract is determined as follows:

- installation fees are recognised by reference to the stage of completion of the installation, determined as the proportion of the total time expected to install that has elapsed at the balance sheet date;
- servicing fees included in the price of products sold are recognised by reference to the proportion of the total cost of providing the servicing for the product sold, taking into account historical trends in the number of services actually provided on past goods sold; and
- revenue from time and material contracts is recognised at the contractual rates as labour hours are delivered and direct expenses are incurred.

Dividend and interest revenue

Dividend revenue from investments is recognised when the shareholder's right to receive payment has been established.

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.



Significant accounting judgements and estimates

Critical judgements in applying accounting policies

In the application of the accounting policies, which are described in note 2, the management made certain judgements that had a significant impact on the amounts reported in the financial statements (irrespective of the underlying estimates referred to below).

These judgements are provided in detail in the accompanying notes. However, the critical judgements relate to the following areas:

Quantification and determination of the environmental and decommissioning obligations for oil and gas properties

The management makes estimates of future expenditure in connection with environmental protection and decommissioning obligations using prices by reference to prior similar activities, as well as other assumptions. Furthermore, the time determined for the cash flows reflects the current estimates of priorities, technical equipment requirements and urgency of the obligations. The obligation with respect to the decommission provision for oil and gas properties amounted to HRK 1,009 thousand and HRK 1,069 million at 31 December 2008 and 31 December 2007 (see note 31) respectively. Consequently, the amounts reported are subject to a large number of variables that may affect the calculation.

The level of provisioning for environmental protection and decommissioning of oil and gas properties

The applicable regulations, specifically the environmental protection legislation, do not specify the exact scope of activities or technology to be applied. In determining the level of provisions for environmental protection and decommissioning of oil and gas properties, the management relies on prior experience and their own interpretation of the related legislation.

Impairment of non-current assets, including goodwill

The impairment calculation requires the estimate of the value in use of the cash generating units. Value in use is measured using the discounted cash flow projections. The most significant variables in determining cash flows are discount rates, time values, the period of cash flow projections, as well as assumptions and judgements used in determining cash receipts and expenditure. The impairments reported in the consolidated income statement for 2008 and 2007 amounted to HRK 263 million and HRK 139 million, respectively. The carrying amount of goodwill for the year 2008 amounted to HRK 197 million (see note 13).

Availability of taxable profit against which the deferred tax assets can be utilised

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. In determining the amount of deferred taxes that can be recognised are required, which are based on the probable quantification of time and level of future taxable profits, together with the future tax planning strategy. The carrying amount of deferred tax assets amounts to HRK 327 million and HRK 34 million as of 31 December 2008 and 2007, respectively (see note 8).

Actuarial estimates used in determining the retirement bonuses

The cost of defined benefits is determined using actuarial estimates. Actuarial estimates involve assumptions of discount rates, future salary increases and the mortality or fluctuation rates. Because of the long-term nature of those plans, there is uncertainty surrounding those estimates. Provisions for retirement bonuses and jubilee awards amounted to HRK 124 million and HRK 106 million at 31



December 2008 and 31 December 2007, respectively (see note 32).

Consequences of certain legal actions

INA Group members are involved in number of law suits arisen from the regular course of business. If there is a present obligation that will request probable outflow of resources (the opinion of law experts is taken into consideration), the reliable estimate of the obligation will be made in order of recognizing provision on a consistent basis (see Note 31).

Crude oil and natural gas prices

Crude oil, natural gas and refinery product demand and prices depend on a variety of various factors beyond the control of the INA Group, including:

- global and regional economic and political developments, particularly in the Middle East;
- the ability of international oil cartels and oil-producing nations to influence production levels and prices;
- actions taken by governments;
- the level of consumer demand;
- the price and availability of alternative products; and
- weather conditions.

Historically, international crude oil and natural gas prices have fluctuated to a significant extent. A significant change in the crude oil and natural gas prices may have a significant impact on the operating results of the INA Group. Lower crude oil and natural gas prices may reduce the quantities of oil and natural gas that the INA Group could produce in terms of economically justified production, that is, it can reduce economic justification of the projects that are planned or already under way.

Exploration and development

Well exploration and development projects involve many uncertainties and business risks that may give rise to sig-

nificant expenditure. Exploration and development projects of the INA Group may be delayed or unsuccessful for many various reasons, including budgeted cost overrun, geological issues, difficulties in meeting the requirements of competent bodies, lacks of equipment and technical problems. These projects, particularly those pertaining to the wells in continental areas or other demanding terrain, often require deployment of new and advanced technologies, the development, purchase and installation of which may be expensive and that may not operate as expected.

Oil and natural gas exploration and drilling activities are subject to a wide range of inherent risks, including the risk of eruption, deposit damage, loss of control over the wells, perforation, craters, fire and natural disasters.

Oil and natural gas reserves in Syria

The INA Group has been actively present in Syria since the mid-1970s.

The strategy of INA's Exploration and Production in the area of natural gas and oil depends partly on the successful exploration and development of its wells in Syria.

However, any military or political disturbance in Syria may affect the operations of the INA Group in various ways, including a disruption in the production and transport of crude oil or natural gas, or loss of properties. Any discontinued ability of the INA Group to produce or deliver its products may result in reduced revenue or additional costs of replacement or repairs, or insurance of the INA Group properties.

The INA Group concluded the licences and agreements pertaining to its Syria operations with the Syrian Government, which exposes them to political influence and changes. Depending on the overall political situation in Syria, adverse effects are possible, such as on the net investment income of the INA Group in Syria, which could then have an adverse impact on the future operating results of the INA Group.

3. SALES REVENUE

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

Revenue analysis by business segments:

Continuing operation

	INA Group		INA Matica	
	2008	2007	2008	2007
Exploration and production	5,534	4,154	3,790	3,259
Refining and wholesale	13,252	14,040	12,831	11,803
Retail	8,216	5,792	7,111	5,793
Corporate and other	142	109	10	43
	27,144	24,095	23,742	20,898

Discontinued operation

	INA Group		INA Matica	
	2008	2007	2008	2007
Exploration and production	1,664	1,753	1,664	1,753
	1,664	1,753	1,664	1,753

Revenue analysis by geographical segments:

Continuing operation

	INA Group		INA Matica	
	2008	2007	2008	2007
Within Republic of Croatia	16,965	14,977	16,114	13,485
Within Former Republic of Yugoslavia	3,514	3,977	2,814	2,489
Within the European Union	4,651	3,727	4,043	4,160
Rest of the world	2,014	1,414	771	764
	27,144	24,095	23,742	20,898

Discontinued operation

	INA Group		INA Matica	
	2008	2007	2008	2007
Within Republic of Croatia	1,619	1,490	1,619	1,490
Within the European Union	45	263	45	263
	1,664	1,753	1,664	1,753

4. DEPRECIATION AND AMORTISATION

	INA Group		INA Matica	
	2008	2007	2008	2007
Amortisation of intangible assets (note 11)	84	78	81	75
Depreciation of property, plant and equipment (note 12 b)	1,287	1,224	1,019	1,016
	1,371	1,302	1,100	1,091

5. STAFF COSTS

Continuing operation

	INA Group		INA Matica	
	2008	2007	2008	2007
Net payroll	1,516	1,302	905	830
Contributions for pensions and health insurance	1,078	931	683	618
Other payroll related costs	328	343	164	186
	2,922	2,576	1,752	1,634

Discontinued operation

	INA Group		INA Matica	
	2008	2007	2008	2007
Net payroll	3	2	3	2
Contributions for pensions and health insurance	2	2	2	2
Other payroll related costs	-	1	-	1
	5	5	5	5

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

Continuing operation	INA Group		INA Matica	
	2008	2007	2008	2007
	Number	Number	Number	Number
Production	6,701	6,298	3,173	3,085
Distribution	4,662	4,463	3,728	3,792
Administration	4,339	4,220	2,925	2,959
Sales and marketing	469	463	34	70
Research and development	433	411	220	217
	16,604	15,855	10,080	10,123

Discontinued operation

	INA Group		INA Matica	
	2008	2007	2008	2007
	Number	Number	Number	Number
Production	-	-	-	-
Distribution	7	-	7	-
Administration	6	-	6	-
Sales and marketing	15	-	15	-
Research and development	-	-	-	-
	28	-	28	-

6. FINANCE INCOME

	INA Group		INA Matica	
	2008	2007	2008	2007
Foreign exchange gains	326	654	247	549
Other interest income	68	50	83	37
Dividends	2	2	2	2
Interest from financial assets	15	40	10	40
	411	746	342	628

7. FINANCE COSTS

Continuing operation

	INA Group		INA Matica	
	2008	2007	2008	2007
Foreign exchange losses	734	180	638	88
Interest payable on long-term loans	150	152	138	145
Other interest payable	263	231	242	235
Loss on embedded derivatives	29	13	29	13
Other financial expenses	15	65	4	48
	1,191	641	1,051	529

Discontinued operation

	INA Group		INA Matica	
	2008	2007	2008	2007
Foreign exchange losses	-	-	-	-
Interest payable on long-term loans	-	-	-	-
Other interest payable	-	-	-	-
Loss on embedded derivatives	110	(8)	110	(8)
Other financial expenses	-	-	-	-
	110	(8)	110	(8)

8. TAXATION

Continuing operation

	INA Group		INA Matica	
	2008	2007	2008	2007
Current tax expense	29	313	-	261
Deferred tax charge/(benefit) relating to origination and reversal of temporary differences	149	51	160	51
	178	364	160	312

Discontinued operation

	INA Group		INA Matica	
	2008	2007	2008	2007
Current tax benefit	-	(102)	-	(102)
Deferred tax charge/(benefit) relating to origination and reversal of temporary differences	(362)	-	(362)	-
	(362)	(102)	(362)	(102)

Domestic income tax rate is calculated at 20 per cent in 2008 (2007: 20 per cent) of the income before taxes for the year.

Income taxes are recorded on the basis of estimated taxable income in accordance with the fiscal laws prevailing

in the country in which they originate. The Company is subject to corporate income tax on its taxable profits in Croatia.

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

Continuing operation	INA Group		INA Matica	
	2008	2007	2008	2007
Profit before tax	530	1,642	770	1,709
Income tax expense calculated at 20%	106	329	154	342
Tax effect of permanent differences	72	35	6	25
Reversal of unrecognised deferred tax assets	-	-	-	(55)
Current and deferred tax expense	178	364	160	312

Discontinued operation	INA Group		INA Matica	
	2008	2007	2008	2007
Profit before tax	(1,812)	(509)	(1,812)	(509)
Income tax expense calculated at 20%	(362)	(102)	(362)	(102)
Tax effect of permanent differences	-	-	-	-
Reversal of unrecognised deferred tax assets	-	-	-	-
Current and deferred tax expense	(362)	(102)	(362)	(102)

In addition to the deferred tax in 2008 deferred tax recognized in amount of 91 HRK million (in 2007 41 HRK million). The movements in deferred tax assets were as follows:

INA Group	Value adjustment of current assets	Value adjustment of tangible and intangible assets	Reversal of depreciation for impaired asset	Provision recorded for ENI tax case	Value adjustment of financial investments	Tax losses	Total
Balance at 01 January 2007	25	89	(10)	23	2	-	129
Credit to equity for the year	-	-	-	-	(41)	-	(41)
Reversal of temporary differences	(19)	(42)	(6)	(23)	-	-	(90)
Origination of temporary differences	20	17	0	1	1	-	39
Balance at 31 December 2007	26	64	(16)	1	(38)	-	37
Credit to equity for the year	-	-	-	-	91	-	91
Reversal of temporary differences	(8)	(13)	(13)	(1)	-	-	(35)
Origination of temporary differences	105	51	-	28	17	47	248
Balance at 31 December 2008	123	102	(29)	28	70	47	341

INA Matica	Value adjustment of current assets	Value adjustment of tangible and intangible assets	Reversal of depreciation for impaired asset	Provision recorded for ENI tax case	Value adjustment of financial investments	Tax losses	Total
Balance at 31 December 2006	24	89	(10)	23	(1)	-	125
Credit to equity for the year	-	-	-	-	(41)	-	(41)
Reversal of temporary differences	(18)	(42)	(6)	(23)	0	-	(89)
Origination of temporary differences	20	17	0	1	1	-	39
Balance at 31 December 2007	26	64	(16)	1	(41)	-	34
Credit to equity for the year	-	-	-	-	91	-	91
Reversal of temporary differences	(8)	(13)	(13)	(1)	-	-	(35)
Origination of temporary differences	105	47	-	28	10	47	237
Balance at 31 December 2008	123	98	(29)	28	60	47	327

9. DISCONTINUED OPERATIONS

The Government of the Republic of Croatia and the Hungarian oil company MOL signed a Master Agreement on Natural Gas Business (a framework agreement regulating some basic issues regarding the future of the natural gas market and the supply of natural gas in Croatia) on 30 January 2009. Based on the contract the government or an entity wholly owned and designated by the government for this purpose will take over the gas storage and gas trading activity of INA d.d. during 2009.

Through the implementation of the Master Agreement on

Natural Gas Business, gas business will gradually be separated from INA, d.d. Pursuant to its business strategy, INA, d.d shall maintain only onshore and offshore exploration and production activities in the Republic of Croatia.

Since the gas trading activity represents a major line of business, the Company presents related results and cash flows as profit and cash flows from discontinued operations. The comparative profit and cash flows from discontinued operations have been re-presented to include those operations classified as discontinued in the current period, as set out below.

	2008	2007
(Loss)/profit for the year from discontinued operation		
Sales revenue		
a) domestic	1,619	1,490
b) exports	45	263
Total sales revenue	1,664	1,753
Other operating income	-	91
Total operating income	1,664	1,844
Other material costs	(343)	(285)
Service costs	(3)	(3)
Staff costs	(5)	(5)
Cost of other goods sold	(2,853)	(2,053)
Impairment and charges	(162)	(15)
Operating expenses	(3,366)	(2,361)
(Loss)/profit from operations	(1,702)	(517)
Finance costs	(110)	8
(Loss)/profit before tax	(1,812)	(509)
Income tax expense	362	102
(Loss)/profit for the year	(1,450)	(407)
Cash flow from discontinued operations		
Net cash flow from operating activities	(441)	(520)
Net cash flows	(441)	(520)

The assets to be sold with the sale of gas storage and gas trading activities have been classified and accounted for at 31 December 2008 as assets held for sale (see note 25.)

10. EARNINGS PER SHARE

Continued and discontinued operation

	INA Group 2008	2007	INA Matica 2008	2007
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Basic and diluted earnings per share (in HRK)	(109.9)	86.9	(84.0)	99.0
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Earnings

	INA Group 2008	2007	INA Matica 2008	2007
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Earnings used in the calculation of total basic earnings per share (loss/profit for the period attributable to equity holders of the parent) from continued and discontinued operation

	(1,099)	869	(840)	990
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	(1,099)	869	(840)	990
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Number of shares

	INA Group 2008	2007	INA Matica 2008	2007
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	Number of shares	Number of shares	Number of shares	Number of shares
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Weighted average number of ordinary shares for the purposes of basic earnings per share (in millions)

	10	10	10	10
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From continued operation

	INA Group 2008	2007	INA Matica 2008	2007
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Basic and diluted earnings per share (in HRK)	35.1	127.6	61.0	139.7
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Earnings

	INA Group 2008	2007	INA Matica 2008	2007
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Loss/profit for the period attributable to equity holders of the parent

	(1,099)	869	(840)	990
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Less:

Loss/profit for the year from discontinued operation

	(1,450)	(407)	(1,450)	(407)
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Earnings for calculation basic earnings per share (kuna per share) from continuing operations

	351	1,276	610	1,397
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11. INTANGIBLE ASSETS

	INA Group	INA Matica
Balance at 01 January 2007	685	678
Additions	274	267
Value adjusted of acquisition of Rotary Zrt.	(3)	-
Amortisation	(78)	(75)
Write off of exploration cost	(40)	(39)
Transfer to property, plant and equipment	(177)	(176)
Balance at 31 December 2007	661	655
Additions	292	282
Amortisation	(84)	(81)
Impairment IAS 36	2	2
Write off of exploration cost	(69)	(69)
Transfer to property, plant and equipment	(122)	(126)
Balance at 31 December 2008	680	663

12. PROPERTY, PLANT AND EQUIPMENT

a) By business segment

INA Group	Oil and gas exploration and production, gas storage and oilfield services	Refining and marketing	Retail	Other	Total
At 31 December 2007					
Cost	32,184	12,207	2,499	2,064	48,954
Accumulated depreciation	23,220	8,023	1,500	1,320	34,063
Net book value	8,964	4,184	999	744	14,891
At 31 December 2008					
Cost	33,291	13,251	2,979	2,267	51,788
Accumulated depreciation	23,000	8,015	1,739	1,515	34,269
Net book value	10,291	5,236	1,240	752	17,519
INA Matica					
At 31 December 2007	Oil and gas exploration and production, gas storage and oilfield services	Refining and marketing	Retail	Other	Total
Cost	28,493	11,032	2,491	849	42,865
Accumulated depreciation	20,888	7,359	1,496	499	30,242
Net book value	7,605	3,673	995	350	12,623
At 31 December 2008					
Cost	29,415	12,366	2,571	1,035	45,387
Accumulated depreciation	20,603	7,480	1,593	700	30,376
Net book value	8,812	4,886	978	335	15,011

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 2006	21,417	9,971	13,475	1,250	51	46,164
Additions	-	-	2,354	-	-	2,354
Assets acquired from acquisition of Rotary Zrt.	-	41	372	1	-	414
Capitalised decommission costs	77	-	-	-	-	77
Transfer from intangible assets	-	-	177	-	-	177
Transfers	519	360	(1,212)	333	-	-
Disposals	(9)	(52)	(94)	(71)	(6)	(232)
Balance at 31 December 2007	22,004	10,320	15,072	1,513	45	48,954
Additions	-	-	4,082	4	-	4,086
Capitalised decommission costs	(155)	-	-	-	-	(155)
Transfer from intangible assets	-	-	122	-	-	122
Transfers	856	247	(1,275)	165	7	-
Disposals	(9)	(489)	(604)	(92)	(6)	(1,200)
Exchange differences	-	1	(19)	(1)	-	(19)
Balance at 31 December 2008	22,696	10,079	17,378	1,589	46	51,788
Accumulated depreciation						
	Oil and gas properties	Land and buildings	Plant and machinery and assets under construction	Vehicles and office equipment	Collective Consumption assets	Total
Balance at 31 December 2006	16,909	6,798	8,040	1,066	39	32,852
Charge for the year	619	209	274	121	1	1,224
Acquisition of Rotary Zrt.	-	7	41	98	-	146
Impairment	33	7	3	(1)	-	42
Transfers	(22)	24	(2)	-	-	-
Disposals	(6)	(41)	(85)	(65)	(4)	(201)
Balance at 31 December 2007	17,533	7,004	8,271	1,219	36	34,063
Charge for the year	462	315	366	141	3	1,287
Charge for decommission for a prior year	-	(104)	-	-	-	(104)
Additions - buying "Pumping"	-	-	3	4	-	7
Impairment	123	28	20	4	-	175
Transfers	-	-	(5)	5	-	-
Disposals	(9)	(465)	(580)	(88)	(4)	(1,146)
Exchange differences	4	-	(14)	(3)	-	(13)
Balance at 31 December 2008	18,113	6,778	8,061	1,282	35	34,269
Carrying amount						
At 31 December 2008	4,583	3,301	9,317	307	11	17,519
At 31 December 2007	4,471	3,316	6,801	294	9	14,891

The carrying amount of INA Matica property, plant and equipment increased in 2008 by HRK 2,388 million as a result of the current year investments in the amount of HRK 3,548 million, change in the estimated decommission costs of HRK -155 million, transfer from intangible assets in

the amount of HRK 126 million, retirements in the amount of HRK -40 million, depreciation charge of HRK -1,019 million, last year's depreciation of decommission costs in the amount of 103 million, value adjustment of assets per IAS 36 in the amount of -175 million.

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 2006	21,416	8,259	10,407	647	47	40,776
Additions	-	-	1,995	-	-	1,995
Capitalised decommission costs	77	-	-	-	-	77
Transfer from intangible assets	-	-	176	-	-	176
Transfers	519	299	(943)	125	-	-
Disposals	(9)	(55)	(78)	(11)	(6)	(159)
Balance at 31 December 2007	22,003	8,503	11,557	761	41	42,865
Additions	-	-	3,548	-	-	3,548
Capitalised decommission costs	(155)	-	-	-	-	(155)
Transfer from intangible assets	-	-	126	-	-	126
Transfers	856	194	(1,145)	95	-	-
Disposals	(9)	(488)	(456)	(38)	(6)	(997)
Balance at 31 December 2008	22,695	8,209	13,630	818	35	45,387
Accumulated depreciation						
	Oil and gas properties	Land and buildings	Plant and machinery and assets under construction	Vehicles and office equipment	Collective Consumption assets	Total
Balance at 31 December 2006	16,911	5,675	6,133	553	39	29,311
Charge for the year	620	157	193	45	1	1,016
Impairment	33	7	3	(1)	-	42
Transfers	(22)	24	-	(2)	-	-
Disposals	(5)	(37)	(73)	(8)	(4)	(127)
Balance at 31 December 2007	17,537	5,826	6,256	587	36	30,242
Charge for the year	462	265	236	55	1	1,019
Charge for decommission for a prior year	-	(103)	-	-	-	(103)
Impairment	123	28	20	4	-	175
Disposals	(9)	(465)	(442)	(37)	(4)	(957)
Balance at 31 December 2008	18,113	5,551	6,070	609	33	30,376
Carrying amount						
At 31 December 2008	4,582	2,658	7,560	209	2	15,011
At 31 December 2007	4,466	2,677	5,301	174	5	12,623

Additions to oil and gas properties and assets under construction include own costs capitalised in 2008 of HRK 14 million (2007: HRK 13 million). Included above are assets under construction of HRK 3,548 million (2007: HRK 1,995 million) which are not yet subject to depreciation.

I) Oil and gas reserves

The ability of INA and 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 2008 Exploration and Production segment performed assessment of the quantities of the Company's remaining proved developed oil and gas reserves which were commercially recoverable.

II) Ownership of land and buildings

Due to political developments in Croatia since 1990, certain local municipal land registers have not been fully established. The Company is in the process of registering, through the local courts in Croatia, its title to land and buildings included in the related balance of HRK 2,676 million in 2008 (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 2008 and 2007, the net book values of the Group's refining and retail property, plant and equipment were HRK 5,864 million and HRK 4,668 million, respectively.

The Management Board has assessed the carrying values

of its Refining & Marketing and Retail assets with reference to the discounted estimated future net cash flows from the refining and wholesale business, in accordance with the requirements of IAS 36. The impairment as reported by the Refining & Marketing in accordance with IAS 36 amounts to HRK 25 million in 2008.

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. The impairment as reported by the Retail Segment in accordance with IAS 36 amounts to HRK 25 million in 2008 and HRK 9 million in 2007.

V) Review of the residual value

The Group has reviewed the residual value for depreciation purposes to reflect the changes in the definition of the residual value provided in the Standard, and no need for any adjustment to the residual values for either the current or prior periods has been established.



13. GOODWILL

	INA Group and Matica
Investment of Croscos, d.o.o. in Rotary Zrt. Hungary (100%)	191
Investment of INA, d.d. in Energopetrol d.d. Sarajevo (INA i MOL 67%)	132
Total investments	323
Net assets of Rotary Zrt.	(93)
Net assets of Energopetrol d.d. Sarajevo	(67)
Total net assets	(160)
Goodwill Rotary Zrt.	98
Goodwill Energopetrol d.d. Sarajevo	65
Total goodwill for 2007	163
Rotary Zrt - exchange differences adjustments	6
Energopetrol Plc Sarajevo -contractual commitments adjustments	28
Total goodwill for 2008	197

On 28 March 2007, pursuant to the agreement entered into by the Government of the Federation of Bosnia and Herzegovina and the INA-MOL Consortium, the INA Group invested HRK 132 million in the acquisition of Energopetrol d.d., Sarajevo and became, together with MOL, a major shareholder of the investee (INA d.d. and MOL Plc. hold an equity share of 33.5 % each). On 1 October 2007, the subsidiary Croscos d.o.o. Zagreb, acquired the entire equity share in the company Rotary Drilling Co.LTD, headquartered in Nagykanizsa, for a consideration of HRK 191 million.

The business combinations with the companies Energopetrol d.d., Sarajevo and Rotary Drilling Co.LTD were initially recorded in the period in which the combinations were con-

cluded on a provisional basis because the fair values of identifiable assets, liabilities and contingent liabilities of the investees could have been determined only provisionally and, at the INA Group, they were accounted for by reference to the provisional values. During 2008, an adjustment to the provisional values as per the initial reconciliation with the audited 2007 financial statements of the company Energopetrol d.d. was recognised. The resulting fair value adjustment of the identifiable assets and liabilities resulted in an increase of goodwill in the amount of HRK 28 million.

Discount rate used for impairment test were 8.72% (EUR) and 13.66% (HUF) respectively in case of Energopetrol d.d. and Rotary Co.LTD.



14. INVESTMENTS IN SUBSIDIARIES

	INA Matica	
	2008	2007
Equity investments in subsidiaries	1,259	1,286

	INA Matica	
	2008	2007
Equity investments in subsidiaries at 01 January	1,286	978
Interina Holding Ltd. London - liquidation	(28)	28
Interina d.o.o. Ljubljana - share capital increase	24	-
Interina d.o.o. Ljubljana - impairment allowance	(21)	(4)
INA Crna Gora d.o.o. Kotor -share capital increase	3	-
Hostin d.o.o Zagreb - impairment allowance	(1)	-
INA Kosovo d.o.o. Priština-establishing new company	-	10
INA Kosovo d.o.o. Priština - value adjustment	(4)	-
Croscos	-	274
Total as of 31 December	1,259	1,286

In September 2007, all the shares of Interina Ltd., worth HRK 28 million, were transferred by Interina Holding Ltd. London to INA d.d.; a new entity – INA-Kosovo d.o.o. Priština was established, with a share worth HRK 10 million; and the impairment allowance on the investment in Croscos d.o.o. Zagreb, worth HRK 274 million, was reversed in accordance with IAS 36. Also, an impairment allowance for the investment in Interina Ljubljana was made in the amount of HRK 4 million.

During 2008, the share capital of Interina d.o.o. Ljubljana

and INA Crna Gora d.o.o. Kotor was increased by HRK 24 million and HRK 3 million, respectively. Impairment allowance was recorded in respect of Interina d.o.o. Ljubljana (HRK 21 million); Hostin d.o.o. Zagreb (HRK 1 million), as well as value adjustment in respect of the subsidiary INA-Kosovo d.o.o. Priština (HRK 4 million).

The liquidation of Interina Holding was completed in December 2008 (investment worth HRK 28 million), and a written confirmation of deletion from the Register is pending.

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)

2008

Name of company	Activity	Share holding
<i>Oilfield services</i>		
*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%
Crosco B.V. Amsterdam, Nizozemska (from January 2008)	Oilfield services	100%
Nordic Shipping Ltd, Marshall Islands	Platform ownership	100%
Sea Horse Shipping Inc, Marshall Islands	Platform ownership	100%
Crosco International d.o.o. Slovenia	Oilfield services	100%
Rotary Zrt., Hungary	Oilfield services	100%
Crosco S.A. DE C.V. Monterrey, Mexico (from January 2008)	Oilfield services	100%
Crosco International d.o.o. Tuzla, BiH	Oilfield services	100%
Mideast Integrated Drilling & Well Services Company LLC, Oman	Oilfield services	49%
<i>Oil exploration and production</i>		
*INA Naftaplin International Exploration and Production Ltd, Guernsey	Oil exploration and production	100%
CorteCros d.o.o., Zagreb	Distribution of anti-corrosion products	60%
<i>Tourism</i>		
*Hostin d.o.o. Zagreb	Tourism	100%
<i>Ancillary services</i>		
*STSI integrirani tehnički servisi d.o.o. Zagreb	Technical services	100%
*Sinaco d.o.o. Sisak	Security	100%
*ITR d.o.o., Zagreb	Car rental	100%
*Podzemno skladište plina d.o.o. Zagreb (from December 2008)	Gas storage	100%
<i>Production and trading</i>		
*Maziva Zagreb d.o.o. Zagreb	Production and lubricants trading	100%
*Proplin d.o.o. Zagreb	Production and LPG trading	100%
<i>Trading and finance</i>		
*Interina d.o.o. Ljubljana, Slovenia	Foreign trading	100%
*INA BH d.d. Sarajevo, Bosnia and Herzegovina	Foreign trading	100%
*Interina d.o.o., Sarajevo, Bosnia and Herzegovina (from March 2008 merged to Holdina Sarajevo)	Foreign trading	100%
*Interina d.o.o. Skopje, Macedonia (in bankruptcy)	Foreign trading	100%
*Interina Holding Ltd, London, UK (final phase of liquidation; confirmation of deletion from the court register is pending)	Foreign trading	100%
*Inter Ina Ltd, London, UK	Foreign trading	100%
*INA Hungary Kft., Budapest, Hungary	Foreign trading	100%
*FPC Ltd, London, UK	Foreign trading	100%
*Holdina (Guernsey) Ltd, Guernsey	Foreign trading	100%
Inter Ina (Guernsey) Ltd, Guernsey	Foreign trading	100%

Holdina (Cyprus) Ltd, Cyprus	Foreign trading	100%
Holdina (Ireland) Ltd, Ireland	Foreign trading	100%
*Holdina d.o.o. Sarajevo, Bosnia and Herzegovina	Foreign trading	100%
*INA d.o.o. Beograd, Serbia	Foreign trading	100%
*INA Kosovo d.o.o. Priština (from October 2007)	Foreign trading	100%
*Infocentar d.o.o. Zagreb (until May 2008)	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	100%
*Prirodni plin d.o.o. Zagreb (from December 2008)	Trading	100%
*INA BL d.o.o. Banja Luka (from September 2008)	Trading	100%
*Petrol d.d. Jurdani	Trading	83%
*INA-Osijek – Petrol d.d.	Trading	76%
*Polybit d.o.o. Rijeka (jointly controlled entity)	Oil production and trading	50%



15. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	INA Group		INA Matica	
	2008	2007	2008	2007
Investments in associates and joint ventures	76	124	189	189
	76	124	189	189

Name of company	Activity	% shareholding held by INA companies	INA Groupa		Ina Matica	
			2008.	2007.	2008.	2007.
Croplin d.o.o. Zagreb	Gas trading	50%	35	35	35	35
SOL-INA d.o.o.	Industrial gas production	37.2%	22	22	22	22
ENERGOPETROL d.d., Sarajevo BiH (from March 2007)	Retail (oil and lubricants)	33.5%	19	67	132	132
Hayan Petroleum Company, Damascus, Syria	Operating company (oil exploration, development and production)	50%	-	-	-	-
TERME Zagreb d.o.o., Zagreb (from September 2008)	Recreation and medical tourism	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 (in liquidation)	Maintenance and technical engineering services	49%	-	-	-	-
Belvedere d.d., Dubrovnik	Hotel trade	31.8%	-	-	-	-
Marina Petroleum Company Egypt, Cairo (from July 2007)	Exploration and production operator	25%	-	-	-	-
Adria LNG Study Company Ltd	Oil exploration	22.2%	-	-	-	-
			76	124	189	189

Investment in Energopetrol

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):

a) KM 10.2 million for the Government of the Federation of Bosnia and Herzegovina with respect to recapitalisation rights; and

b) KM 60.195 million to Energopetrol with respect to recapitalisation, which Energopetrol will use to settle its debt (tax liabilities, amounts due to banks and creditors, and other liabilities) as of 31 December 2004;

The amounts were paid in 2007.

16. OTHER INVESTMENTS

	INA Group 2008	2007	INA Matica 2008	2007
Financial assets at fair value through profit or loss	20	20	20	20
Long-term loans	40	18	332	384
Deposits	23	24	23	22
Other investments	83	62	375	426



17. LONG-TERM RECEIVABLES

INA Group	2008	2007
Amounts receivable for apartments sold	158	169
Other long-term receivables	8	8
	166	177
INA Matica	2008	2007
Amounts receivable for apartments sold	157	168
Long-term receivables from Proplin	68	68
Long-term receivables from Crosco	32	32
Long-term receivables from STSI	15	15
Other long-term receivables	7	7
	279	290

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 30). The receivables are secured by mortgages over the sold apartments. The principal is presented in the receivable amounts. The amounts do not include the interest portion.

18. AVAILABLE-FOR-SALE ASSETS

Company available for sale

Name of the Company	% shareholding held by INA	Activity	2008	2007
Jadranski Naftovod d.d. (JANAF d.d.)	16.00%	Pipeline ownership and operations	155	610
OMV Slovenia d.o.o., Koper	7.75%	Oil trading	31	31
Plinara d.o.o. Pula	49%	Distribution and oil trading	17	17
Impairment provision			(2)	(2)
			201	656

Pursuant to the 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 39, a substantial portion of the trading income of JANAF d.d. is derived from INA. The value of the equity share in JANAF was reported by reference to the market value of the shares as quoted on the Zagreb Stock Exchange as of 31 Decem-

ber 2008. The net book value of the equity investment in JANAF decreased by HRK 455 million compared to the balance as of 31 December 2007 due to a decrease in the market value of the JANAF shares on the Zagreb Stock Exchange. The market value of the shares (118 855 shares) as of 31 December 2008 amounted to HRK 1,301 per share (HRK 5,130 per share as of 31 December 2007).

19. INVENTORIES

	INA Group		INA Matica	
	2008	2007	2008	2007
Crude oil	214	637	214	637
Gas inventories	-	109	-	99
Merchandise	202	236	143	189
Raw material	230	273	106	180
Spare parts, materials and supplies	444	416	75	103
Work in progress	649	628	647	603
Refined products	651	824	621	770
	2,390	3,123	1,806	2,581

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 the Act on Oil and Oil Product Market (Official Gazette No. 57/2006), which modified the basis for calculating the obligatory oil stocks, the Croatian Government issued a Decision on the Quantity and Structure of Obligatory Oil and Refinery Product Stocks for the Year 2008. According to the Decision, The Ministry of Economy, Labour and Entrepreneurship determined the share of INA d.d. in maintaining the obligatory stock for the year 2008 in quantitative (tons) and structural terms prescribed by the Act as follows: out of the total 85 345 tons of refinery products: 16 880 tons of petrol fuels; 2 000 tons jet fuel; 37 015 tons of diesel fuels; 8 790 tons of gas oils; and 20 660 tons of heating oils. According to the Act, a portion of the stock

can be kept in the form of crude oil and semi-finished products up to the extent of 40 percent of petrol fuels and 40 percent of diesel fuels and fuel gas and up to 50 percent of heating oil. The conversion of the product quantities into REB oil is made on the basis of the production yield for the REB oil according to the adopted Current Business Plan (as per the applicable EU Directive).

Thus, the obligatory stock of INA as of 31 December 2008 consisted of 85 345 tons of refinery products, of which 36 204 tons out of 57 850 tons of REB oil were comprised of Refinery Product Groups I, II and III, and the remaining obligatory stock of 49 141 tons INA d.d. kept in the form of refinery products.

INA d.d. reports the stock quantities to the Croatian Agency for Obligatory Petroleum and Petroleum Product Stock on a weekly basis.

20. TRADE RECEIVABLES, NET

	INA Group		INA Matica	
	2008	2007	2008	2007
Trade receivables	3,187	3,367	1,957	2,287
Allowance for doubtful receivables	(273)	(295)	(158)	(195)
	2,914	3,072	1,799	2,092

Other income in 2008 includes an amount of 14 million (HRK 9 million in 2007) relating to collection of receivables previously provided for.

Provided below is an ageing analysis of trade receivables outstanding and not provided for:

	INA Group		INA Matica	
	2008	2007	2008	2007
60-90 days	99	69	39	42
90-120 days	85	26	52	26
120+ days	123	85	117	54
	307	180	208	122

Trade receivables are carried at fair value, under consideration of the provisioning policy. According to the policy, all receivables outstanding for over 120 days from maturity are provided against.

Exemptions from the provisioning policy applied in 2008 comprise the following:

- Receivables from HEP in respect of the obligation of INA Matica to the Croatian Agency for Obligatory Petroleum and

Petroleum Product Stock (hereinafter: "the CAOPS") in the amount of HRK 41 million. The receivables will be collected in instalments, are not considered irrecoverable, and are thus not subject to the provisioning policy.

- Receivables from Egyptian General Petroleum Corp., New Maadi-Cairo, past due beyond 120 days are not provided against, as the recoverability of the receivables is secured by means of an assignment agreement.

Allowance for doubtful receivables:

	INA Group		INA Matica	
	2008	2007	2008	2007
Balance at beginning of the year	295	365	195	196
Impairment losses recognised on receivables	43	31	7	22
Amounts written off as uncollectible	(33)	(46)	(30)	(14)
Amounts recovered during the year	(32)	(55)	(14)	(9)
Balance of the end of the year	273	295	158	195

The ageing analysis of trade receivables provided for:

	INA Group		INA Matica	
	2008	2007	2008	2007
121-150 days	4	9	1	6
151-180 days	4	8	2	4
181-365 days	15	12	4	6
366+ days	250	266	151	179
	273	295	158	195

21. OTHER RECEIVABLES

	INA Group		INA Matica	
	2008	2007	2008	2007
Tax prepayments	653	548	569	483
Other	66	126	47	100
	719	674	616	583

22. OTHER CURRENT ASSETS

	INA Group		INA Matica	
	2008	2007	2008	2007
Short-term loans and deposits	21	34	18	20
Current portion of long terms loans	5	-	114	58
Other	12	16	12	12
	38	50	144	90

23. PREPAID EXPENSES AND ACCRUED INCOME

	INA Group		INA Matica	
	2008	2007	2008	2007
Prepayments for custom taxes, duties and other charges	65	133	55	116
Accrued income	56	36	36	24
Other	46	14	24	11
	167	183	115	151

24. 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	
	2008	2007	2008	2007
Cash on hand	3	3	-	-
Cash in the bank	546	674	288	262
Other	30	43	30	37
	579	720	318	299

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 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.

25. ASSETS CLASSIFIED AS HELD FOR SALE

	INA Group 2008	2007	INA Matica 2008	2007
Investment	-	-	514	-
Property, plant and equipment	36	-	-	-
Inventories	323	-	323	-
	359	-	837	-

Company available for sale

Name of the Company	% shareholding held by INA	Activity	2008.	2007.
Podzemno skladište plina Okoli d.o.o.	100.00%		42	-

In December 2008, INA d.d. established the underground gas storage entity Podzemno skladište plina Okoli d.o.o.

On January 30, 2009, INA, d.d., as a sole shareholder, sold its equity share in Podzemno skladište Okoli d.o.o. to Plinacro d.o.o., a company fully owned by the Republic of Croatia. Thus, Plinacro d.o.o. has become the owner of PSP Okoli. The underlying agreement was worth HRK 514 million.

Prior to signing the agreement and while establishing Podzemno skladište plina d.o.o., INA d.d. had transferred to the company all the assets required for the natural gas storage operation, including the staff of INA d.d. engaged in those activities.

The Underground Gas Storage "Okoli" is the only of this kind in the Republic of Croatia. Its total capacity is 550 million m³, and its operation as part of the gas supply system

of the Republic of Croatia ensures, among others, enables managing the stored gas quantities as strategic energy reserve.

The signed Agreement on the Sale of the Entire Share in the Company Podzemno skladište plina d.o.o. is a part of the Host Natural Gas Business Agreement (a framework agreement regulating certain key issues pertaining to the future of the natural gas market and supply in Croatia), which was entered into by and between the Government of the Republic of Croatia and the Hungarian oil company MOL. Upon the implementation of the provisions of the Host Natural Gas Business Agreement, the gas segment will be gradually span off from the scope of business of INA d.d. and INA d.d. will, in accordance with its business strategy, retain exclusively the exploration and production activities in the coastal and continental parts of the Republic of Croatia.

26. BANK LOANS AND OVERDRAFTS AND CURRENT PORTION OF LONG-TERM LOANS

	INA Group 2008	2007	INA Matica 2008	2007
Overdrafts and short-term loans	2,492	1,664	249	97
Current portion of long-term loans (note 29)	98	129	47	45
	2,590	1,793	296	142

	Repayment deadline	Security/ Guarantee	2008	2007
BNP Paribas (USD)	by 31.12.2009.	INA d.d. guarantee	720	455
BNP Paribas (USD)	by 31.12.2009.	-	265	6
Hypo bank (BAM)	overdraft		4	-
Raiffeisenbank Sarajevo (BAM)	overdraft		4	-
Bank Tokyo Mitsubishi (USD)	by 14.09.2009.	INA d.d. guarantee	411	175
CKB (EUR)	by 18.03.2009.	-	2	-
Raiffeisenbank Zagreb (EUR, USD)	by 28.02.2009.	-	37	29
Bank Austria Creditanstalt (USD)	by 20.06.2009.	-	80	-
Zagrebačka banka, Zagreb (USD, HRK)	by 30.01.2009.	-	41	22
Privredna banka Zagreb, Zagreb (HRK)	by 30.06.2009.	-	8	57
Societe Generale - Splitska banka (USD, HRK)	by 30.06.2009.	-	61	35
Slavonska banka Osijek	by 10.10.2009.	-	17	18
Fortis (USD)	by 08.02.2009.	INA d.d. guarantee	513	476
Hrv poštanska banka (HRK)	by 03.07.2009.	-	22	259
OTP bank (HUF, EUR, HRK)	by 31.03.2009.	-	58	35
Current portion of long-term loans (note 29)			51	84
Total regarding to subsidiaries			2,294	1,651
INA Matica				
Overdrafts and short term loans			249	97
Current portion of long-terms loans (note 29)			47	45
Total INA Matica			296	142
Total INA Grupa			2,590	1,793

Interest on the above loans was paid at rates based on LIBOR plus up to 1.25%. The Company used several short-term bank loans to manage its short-term cash flow cycle, including fa-

cilities 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.

27. TRADE PAYABLES, TAXES AND CONTRIBUTIONS AND OTHER CURRENT LIABILITIES

	INA Group		INA Matica	
	2008	2007	2008	2007
Trade payables	3,815	3,532	2,574	1,876
Production and sales taxes payable and other taxes	1,080	569	1,007	486
Payroll taxes and contributions	131	79	81	49
Payroll and other	342	269	155	86
	5,368	4,449	3,817	2,497

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

28. ACCRUALS AND DEFERRED INCOME

	INA Group		INA Matica	
	2008	2007	2008	2007
Accrued interest – long-term loans	41	37	39	33
Accrued expenses	147	120	2	45
Other	49	41	15	19
	237	198	56	97

29. 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 2008 and 2007 are analysed as follows:

	Type of loan	Loan currency	2008	2007
PBZ-API 80003	Loan	US\$	2	2
Erste & Steiermarkische bank	Loan (equipment)	USD, EUR	10	19
EBRD	Environmental	EUR	87	121
Bayerische Landesbank	Syndicates/Revolving	US\$	4,279	2,891
			4,378	3,033
Due within 1 year			(47)	(45)
Total long-term loans – INA Matica			4,331	2,988
Other long term group loans			274	226
Due within 1 year			(51)	(84)
Total long-term loans – INA Group			4,554	3,130

INA Group	Weighted average interest rate	Weighted average interest rate	2008	2007
	2008 %	2007 %		
Bank loans in US\$	3.25	5.26	4,298	3,097
Bank loans in EUR	6.11	5.31	315	162
Bank loans in HRK	9.04	-	39	-
Total			4,652	3,259
Payable within 1 year			(98)	(129)
Total long-term loans - INA Group			4,554	3,130

INA Matica	Weighted average interest rate	Weighted average interest rate	2008	2007
	2008 %	2007 %		
Bank loans in US\$	3.24	5.1	4,285	2,897
Bank loans in EUR	5.63	5.24	93	136
Total			4,378	3,033
Payable within 1 year			(47)	(45)
Total long-term loans - INA Matica			4,331	2,988

The maturity of loans may be summarised as follows:

	INA Group		INA Matica	
	2008	2007	2008	2007
Current portion of long-term debt	98	129	47	45
Payable within one to two years	119	51	35	44
Payable within two to three years	58	157	17	35
Payable within three to four years	1,121	20	1,080	17
Payable within four to five years	3,227	2,895	3,199	2,892
Payable within over five years	29	7	-	-
Total	4,652	3,259	4,378	3,033

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

	INA Group	INA Matica
At 31 December 2006	2,003	1,878
New borrowings raised*	3,873	3,695
Amounts repaid	(2,302)	(2,231)
Foreign exchange losses	(315)	(309)
At 31 December 2007	3,259	3,033
Payable within 1 year (included within bank loans and overdrafts – note 26)	(84)	(506)
Payable after more than 1 year	3,175	2,988
At 31 December 2007	3,259	3,033
New borrowings raised	1,331	1,200
Amounts repaid	(112)	(42)
Foreign exchange losses	174	187
At 31 December 2008	4,652	4,378
Payable within 1 year (included within bank loans and overdrafts – note 26)	(98)	(47)
Payable after more than 1 year	4,554	4,331

* New loans raised by the INA Group in 2007 amount to HRK 3,873 million, of which HRK 173 million were assumed on the acquisition of the company Rotary Zrt.

The principal long-term loans outstanding at 31 December 2007 and the principal new loans drawn down and repaid during 2008 were as follows:

Privredna banka Zagreb

The remaining long-term debt of the Company towards Privredna banka Zagreb amounts to HRK 2 million and represents a debt under the Refinanced Bonds Agreement for the issue of API bonds. The debt is dormant and will be refinanced.

Erste & Steiermaerkische Bank and Viktor Lenac

Erste & Steiermaerkische Bank extended loans for the financing of imported equipment necessary for the construction and delivery of the "Labin" platform. The balance outstanding at 31 December 2008 was HRK 10 million and at 31 December 2007 19 million (in US\$, EUR). Interest is payable on 31 January and 31 July annually, at various agreed rates.

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 instalments, with the last instalment 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 2008 amounts to EUR 11.8 million, or HRK 86.8 million, and at 31 December 2007 it amounted to EUR 16.6 million, or HRK 121.4 million.

Bayerische Landesbank

In 2007, the Company entered into a new loan agreement with consortium for a loan facility in the amount of USD 1 billion. The loan funds are intended to finance the regular business of INA d.d., mainly to repay the syndicated loan of USD 400 million agreed earlier and to modernise the refineries. The

loan period is five years and the agreed interest rate is US-LIBOR plus a margin of 0.25-0.40% annually. During 2008, USD 250 million were drawn under this facility. The outstanding loan balance as of 31 December 2008 and 31 December 2007 amounted to USD 830 million, or HRK 4.3 billion, and USD 580 million, or HRK 2.9 billion, respectively.

Compliance with loan agreements

During 2008 INA d.d. and INA Group repaid all of their liabilities in respect of loans (principal, interest, and fees) on a timely basis, and there were no instances of default or delinquency in this respect.

30. OTHER NON-CURRENT LIABILITIES

	INA Group 2008	2007	INA Matica 2008	2007
Liabilities to Government for sold apartments	90	93	86	93
Deferred income for sold apartments	48	51	48	51
	138	144	134	144

The long-term payable to the government relates to obligation arising on the sale of housing units to employees under the government program (Note 17). 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.

31. PROVISIONS

INA Group	Decommission Charges	Legal claims	ENI project claims	Redundancy costs	Tax obligation claims of Holdina Sarajevo	Other	Total
At 31 December 2006	942	163	115	55	55	31	1,361
Charge for the year	89	124	7	4	-	49	273
Effect of change in estimates, capitalised	76	-	-	-	-	-	76
Provision utilised during the year	(38)	(10)	(115)	(42)	-	(52)	(257)
At 31 December 2007	1,069	277	7	17	55	28	1,453
Charge for the year	-	4	154	1	-	43	202
Effect of change in estimates, capitalised	(35)	-	-	-	-	-	(35)
Provision utilised during the year	(25)	(7)	(7)	(12)	-	(4)	(55)
At 31 December 2008	1,009	274	154	6	55	67	1,565

INA Matica

	Decommission Charges	Legal claims	ENI project claims	Redundancy costs	Other	Total
At 31 December 2006	942	163	115	23	23	1,266
Charge for the year	89	84	7	12	9	201
Effect of change in estimates, capitalised	76	-	-	-	-	76
Provision utilised during the year	(38)	(4)	(115)	(23)	(7)	(187)
At 31 December 2007	1,069	243	7	12	25	1,356
Charge for the year	-	4	154	-	37	195
Effect of change in estimates, capitalised	(35)	-	-	-	-	(35)
Provision utilised during the year	(25)	(7)	(7)	(12)	(4)	(55)
At 31 December 2008	1,009	240	154	-	58	1,461

	INA Group		INA Matica	
	2008	2007	2008	2007
Analysed as:				
Current liabilities	185	47	148	25
Non-current liabilities	1,380	1,406	1,313	1,331
	1,565	1,453	1,461	1,356

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 2008, the Company recognised a decommissioning provision for 52 of those fields (2007 51 fields).

Legal claims

The Company has provided for legal contingencies and the most significant provisions for legal claims are as follow:

GWDF Partnership München and GWDF Limited Cyprus
GWDF Partnership München and GWDF Limited Cyprus filed a claim against INA d.d. Zagreb and INA-Naftaplin In-

ternational Exploration, Channel Islands, for HRK 58 million on the grounds of the damage incurred to the claimants for unfounded termination of negotiations. This resulted in refrain from signing the contract on the transfer of shares between GWD Ltd Cyprus and INA -Naftaplin International Exploration. INA d.d. filed a counterclaim in September 2007, disputing both the grounds and the amount of the claim, claiming that the claimants abandoned the negotiations because of a business decision and they were the ones negotiating in conflict with the principles of conscientiousness and fairness.

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

The claim by "Veronika" d.o.o., Zagreb against INA d.d. is for HRK 40 million (previously HRK 44 million; however the claimant lowered the claim in 2007, by withdrawing a part of the claim). 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 Commercial Court ruled twice in

favour of the plaintiff. The High Commercial Court annulled the judgement of the Commercial Court in Zagreb and returned the case for re-trial. In 2007, the Commercial Court in Zagreb issued a judgement by which it acknowledged the claim presented by the plaintiff amounting to HRK 40 million. An appeal has been launched and the decision of the High Commercial Court is still pending.

Uljanik Pula

HRK 23 million have 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 - 21 February 1997 by INA, resulting in a loss to the plaintiff's production process. Uljanik Brodogradilište, 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. Uljanik 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 been 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.

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

The case initiated by „Mimal d.o.o.“, Zagreb against INA d.d. amounts to HRK 20 million. MIMAL 94 d.o.o., as

plaintiff, filed a claim against INA d.d. before the Commercial Court in Zagreb on 31 August 2005, 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 pays 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.

"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 than 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 than those charged by the defendant. Therefore, it is not unlikely that the court could acknowledge the claim of the plaintiff.

City of Sisak

The City of Sisak, as claimant, has filed a claim for indemnity in respect of harmful emissions and for not preventing their excessive dispersion. The claimed amount is HRK 11 million. The process is at initial stages. A more detailed claim, including the specification of the claimed amount, of the claimant is expected following the decision on the competent court, when it will be possible to assess more precisely the legal positions of the parties to the case.

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 (article 15.5).

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.

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 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 in respect of the 2006 taxes payable was paid on the final calculation in 2007.

ENI calculated a tax obligation for 2007 in the amount of HRK 81 million. During 2007, HRK 138 million were paid through tax prepayments. The excess of HRK 57 million will be used as tax prepayment in 2008.

The tax obligation as assessed by ENI in respect of 2008 amounts to HRK 219 million. During 2008, HRK 82 million were paid as tax prepayments, of which HRK 57 represent the tax credit brought forward in respect of overpaid taxes for the year 2007. The outstanding portion of the tax liability for the year 2008 amounts to HRK 141 million.

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.



32. 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 an early retirement benefit in the net amount of HRK 8,000. For regular retirement (no early retirement bonus), employees receive HRK 16,000 net, of which HRK 8,000 are taxable. No other post-retirement benefits are provided. Jubilee awards are paid out according to the following fixed amounts and anniversary dates:

- HRK 2,000 for 10 years of continuous service
- HRK 2,500 for 15 years of continuous service
- HRK 3,000 for 20 years of continuous service
- HRK 3,500 for 25 years of continuous service
- HRK 4,000 for 30 years of continuous service

- HRK 4,500 for 35 years of continuous service
- HRK 5,500 for 40/45 years of continuous service.

The net amounts specified above include the taxable portion, i.e. the portion subject to all applicable taxes and contributions.

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 2008 by I.A.C.T.A. Actuarial Consulting Ltd. In 2008, the Company made a provision of HRK 53 million and HRK 34 million in respect of jubilee awards and regular retirement allowance, respectively.

The present value of the defined benefit obligation, the related current service cost and past service cost were determined using the projection method based on the total number of employees.

Key assumptions used:	Valuation at	
	2008	2007
Discount rate	5.00%	5.00%
Turnover rate	0-3%	2.50%
Mortality table	HR2004 70,00%	HR2004 70,00%
Average expected remaining working lives (in years)	15	18

The amounts recognised in profit from retirement and other employee benefits are as follows:

	INA Matica	
	2008	2007
Cost of current period	6	4
Interest	5	3
Actuarial gains or losses	3	14
	14	21

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	
	2008	2007	2008	2007
Present value of defined benefit obligations	124	106	87	73
Liability recognised in the balance sheet	124	106	87	73

	INA Group		INA Matica	
	2008	2007	2008	2007
This amount is presented in the balance sheet as follows:				
Current liabilities	17	15	11	8
Non-current liabilities	107	91	76	65

	124	106	87	73
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The change of the present value of defined benefit obligation may be analysed as follows:

	INA Matica	
	2008	2007
At 1 January	73	53
Recognised cost in the current period	6	4
Interest	5	3
Actuarial gains or losses	12	21
Payments	(9)	(8)
At 31 December	87	73

33. SHARE CAPITAL

	INA Group and INA Matica	
	2008	2007
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. Each share carries one vote and entitles to dividends.

34. REVALUATION RESERVES

	INA Group and INA Matica	
	2008	2007
Balance at beginning of year	229	66
Increase arising on revaluation available for sale securities (Janaf)	-	206
Decrease arising on revaluation available for sale securities (2008 Janaf; 2007 Plinara Pula)	(455)	(2)
Deferred tax	91	(41)
Balance at the end of year	(135)	229

35. 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 com-

position 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 reserves	Other reserves	Total
At 31 December 2006	2,132	(232)	447	2,347
Movements during 2007	-	(46)	-	(46)
At 31 December 2007	2,132	(278)	447	2,301
Movements during 2008	-	6	-	6
At 31 December 2008	2,132	(272)	447	2,307

INA Matica

	Combined reserves at 31 December 1993	Other reserves	Total
At 31 December 2007	1,667	285	1,952
At 31 December 2008	1,667	285	1,952

36. RETAINED EARNINGS

	INA Group Retained earnings/ (Accumulated deficit)	INA Matica Retained earnings/ (Accumulated deficit)
At 31 December 2006	1,366	551
Dividends paid	(131)	(131)
Profit for the year	869	990
At 31 December 2007	2,104	1,410
Dividends paid	(150)	(150)
Loss for the year	(1,099)	(840)
At 31 December 2008	855	420

37. MINORITY INTERESTS

	INA Group	
	2008	2007
Balance at beginning of year	9	7
Share of profit for the year	1	2
Balance at end of year	10	9

38. SEGMENT ANALYSIS

BY BUSINESS

INA Group	Continuing operation					Discontinued operation	Consolidated	
	Exploration and production	Refining and marketing	Retail	Corporate and other	Elimination			Exploration and production
Year 2008								
Sales to external customers	5,534	13,252	8,216	142	-	27,144	1,664	28,808
Inter-segment sales	2,739	6,636	5	1,011	(10,391)	-	-	-
Total revenue	8,273	19,888	8,221	1,153	(10,391)	27,144	1,664	28,808
Operating expenses, net of other operating income	(4,745)	(21,154)	(8,319)	(2,007)	10,391	(25,834)	(3,366)	(29,200)
Profit/(loss) from operations net of other income	3,528	(1,266)	(98)	(854)	-	1,310	(1,702)	(392)
Net finance income						(780)	(110)	(890)
Profit/(loss) before tax						530	(1,812)	(1,282)
Income tax expense/(benefit)						(178)	362	184
Profit/(loss) for the year						352	(1,450)	(1,098)

INA Group	Continuing operation					Discontinued operation	Consolidated	
	Exploration and production	Refining and marketing	Retail	Corporate and other	Elimination	Total	Exploration and production	
Year 2007								
Sales to external customers	4,154	14,040	5,792	109	-	24,095	1,753	25,848
Inter-segment sales	2,226	4,724	58	575	(7,583)	-	-	-
Total revenue	6,380	18,764	5,850	684	(7,583)	24,095	1,753	25,848
Operating expenses, net of other operating income	(3,818)	(18,705)	(5,940)	(1,678)	7,583	(22,558)	(2,270)	(24,828)
Profit/(loss) from operations net of other income	2,562	59	(90)	(994)	-	1,537	(517)	1,020
Net finance income						105	8	113
Profit/(loss) before tax						1,642	(509)	1,133
Income tax expense/(benefit)						(364)	102	(262)
Profit/(loss) for the year						1,278	(407)	871

INA Group	Exploration and production	Refining and marketing	Retail	Corporate and other	Elimination	Total
2008						
Assets and liabilities						
Property, plant and equipment	10,291	5,236	1,240	752	-	17,519
Intangible assets	436	12	15	217	-	680
Investments in associates and joint ventures	57	19	-	-	-	76
Inventories	380	1,849	108	53	-	2,390
Trade receivables, net	1,351	1,250	316	643	(646)	2,914
Not allocated assets						3,034
Total assets						26,613
Trade payables	2,105	1,532	236	594	(652)	3,815
Not allocated liabilities						10,761
Total liabilities						14,576
Other segment information						
Capital expenditure:	2,552	1,571	143	105	-	4,371
Property, plant and equipment	2,273	1,567	142	97	-	4,079
Intangible assets	279	4	1	8	-	292
Depreciation and amortisation	955	291	131	167	-	1,544
From this: Impairment losses recognized in profit and loss	123	25	25	-	-	173
2007						
Assets and liabilities						
Property, plant and equipment	8,964	4,184	999	744	-	14,891
Intangible assets	356	12	13	280	-	661
Investments in associates and joint ventures	57	67	-	-	-	124
Inventories	632	2,385	58	48	-	3,123
Trade receivables, net	1,139	1,691	316	449	(523)	3,072
Not allocated assets						3,045
Total assets						24,916
Trade payables	1,290	2,088	171	508	(525)	3,532
Not allocated liabilities						7,741
Total liabilities						11,273
Other segment information						
Capital expenditure:	1,559	985	212	140	-	2,896
Property, plant and equipment	1,364	978	211	69	-	2,622
Intangible assets	195	7	1	71	-	274
Depreciation and amortisation	860	238	95	155	-	1,348
From this: Impairment losses recognized in profit and loss	33	-	13	-	-	46

BY GEOGRAPHICAL

INA Group

	Republic of Croatia	Middle East and Africa	Rest of the world	Total
Year 2008				
Property, plant and equipment	13,518	3,172	829	17,519
Intangible assets	412	245	23	680
Investments in associates and joined ventures	57	-	19	76
Inventories	2,230	-	160	2,390
Trade receivables, net	1,970	421	523	2,914
Not allocated assets				3,034
Total assets				26,613
Other segment information				
Capital expenditure:	2,914	1,231	226	4,371
Property, plant and equipment	2,808	1,047	224	4,079
Intangible assets	106	184	2	292

INA Group

	Republic of Croatia	Middle East and Africa	Rest of the world	Total
Year 2007				
Property, plant and equipment	12,022	2,361	508	14,891
Intangible assets	378	262	21	661
Investments in associates and joined ventures	57	-	67	124
Inventories	3,060	-	63	3,123
Trade receivables, net	2,288	179	605	3,072
Not allocated assets				3,045
Total assets				24,916
Other segment information				
Capital expenditure:	2,321	548	27	2,896
Property, plant and equipment	2,226	379	17	2,622
Intangible assets	95	169	10	274

BY BUSINESS

INA Matica	Continuing operation					Discontinued operation	Consolidated	
	Exploration and production	Refining and marketing	Retail	Corporate and other	Elimination	Total	Exploration and production	
Year 2008								
Sales to external customers	3,790	12,831	7,111	10	-	23,742	1,664	25,406
Inter-segment sales	2,475	5,956	15	2	(8,448)	-	-	-
Total revenue	6,265	18,787	7,126	12	(8,448)	23,742	1,664	25,406
Operating expenses, net of other operating income	(2,424)	(20,158)	(7,219)	(910)	8,448	(22,263)	(3,366)	(25,629)
Profit/(loss) from operations net of other income	3,841	(1,371)	(93)	(898)	-	1,479	(1,702)	(223)
Net finance income						(709)	(110)	(819)
Profit/(loss) before tax						770	(1,812)	(1,042)
Income tax expense /(benefit)						(160)	362	202
Profit/(loss) for the year						610	(1,450)	(840)

INA Matica	Continuing operation					Discontinued operation	Consolidated	
	Exploration and production	Refining and marketing	Retail	Corporate and other	Elimination	Total	Exploration and production	
Year 2007								
Sales to external customers	3,259	11,803	5,793	43	-	20,898	1,753	22,651
Inter-segment sales	1,912	4,673	15	2	(6,602)	-	-	-
Total revenue	5,171	16,476	5,808	45	(6,602)	20,898	1,753	22,651
Operating expenses, net of other operating income	(2,472)	(16,461)	(5,900)	(1,057)	6,602	(19,288)	(2,270)	(21,558)
Profit/(loss) from operations net of other income	2,699	15	(92)	(1,012)	-	1,610	(517)	1,093
Net finance income						99	8	107
Profit/(loss) before tax						1,709	(509)	1,200
Income tax expense /(benefit)						(312)	102	(210)
Profit/(loss) for the year						1,397	(407)	990

INA Matica

2008

Assets and liabilities

	Exploration and production	Refining and marketing	Retail	Corporate and other	Elimination	Total
Property, plant and equipment	8,812	4,886	978	335	-	15,011
Intangible assets	434	9	13	207	-	663
Investment in subsidiaries	647	329	-	283	-	1,259
Investments in associates and joint ventures	57	132	-	-	-	189
Inventories	195	1,512	98	1	-	1,806
Trade receivables, net	888	1,185	298	12	(584)	1,799

Not allocated assets

3,980

Total assets

24,707

Trade payables

1,723 3,643 210 286 (3,288) 2,574

Not allocated liabilities

10,896

Total liabilities

13,470

Other segment information

Capital expenditure:

2,203 1,507 90 30 - 3,830

Property, plant and equipment 1,926 1,504 89 29 - 3,548

Intangible assets 277 3 1 1 - 282

Depreciation and amortisation 763 275 113 122 - 1,273

From this: Impairment losses recognized
in profit and loss

123 25 25 - - 173

INA Matica

2007

Assets and liabilities

	Exploration and production	Refining and marketing	Retail	Corporate and other	Elimination	Total
Property, plant and equipment	7,605	3,673	995	350	-	12,623
Intangible assets	359	8	13	275	-	655
Investment in subsidiaries	648	354	-	284	-	1,286
Investments in associates and joint ventures	57	132	-	-	-	189
Inventories	448	2,069	61	3	-	2,581
Trade receivables, net	895	1,595	313	(5)	(706)	2,092

Not allocated assets

3,558

Total assets

22,984

Trade payables

948 3,494 149 380 (3,095) 1,876

Not allocated liabilities

8,517

Total liabilities

10,393

Other segment information

Capital expenditure:

1,115 869 212 66 - 2,262

Property, plant and equipment 924 863 211 (3) - 1,995

Intangible assets 191 6 1 69 - 267

Depreciation and amortisation 725 203 94 115 - 1,137

From this: Impairment losses recognized
in profit and loss

33 - 13 - - 46

BY GEOGRAPHICAL**INA Matica**

	Republic of Croatia	Middle East and Africa	Rest of the world	Total
Year 2008				
Property, plant and equipment	12,014	2,884	113	15,011
Intangible assets	397	245	21	663
Investment in subsidiaries	1,174	-	85	1,259
Investments in associates and joined ventures	57	-	132	189
Inventories	1,806	-	-	1,806
Trade receivables, net	1,517	238	44	1,799
Not allocated assets				3,980
Total assets				24,707
Other segment information				
Capital expenditure:	2,618	1,191	21	3,830
Property, plant and equipment	2,520	1,007	21	3,548
Intangible assets	98	184	-	282

INA Matica

	Republic of Croatia	Middle East and Africa	Rest of the world	Total
Year 2007				
Property, plant and equipment	10,633	1,888	102	12,623
Intangible assets	372	262	21	655
Investment in subsidiaries	1,175	-	111	1,286
Investments in associates and joined ventures	57	-	132	189
Inventories	2,581	-	-	2,581
Trade receivables, net	1,614	178	300	2,092
Not allocated assets				3,558
Total assets				22,984
Other segment information				
Capital expenditure:	1,768	482	12	2,262
Property, plant and equipment	1,679	313	3	1,995
Intangible assets	89	169	9	267

39. RELATED PARTY TRANSACTIONS

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, and the companies with the Republic

of Croatia being their majority shareholder.

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.

Trading transactions

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

INA Matica

Business partners	Sales of goods		Purchase of goods	
	2008	2007	2008	2007
Foreign related companies				
Interina Ltd Guernsey	1,845	2,246	2,263	676
Holdina Sarajevo	968	592	21	15
Interina d.o.o. Mostar	57	214	4	14
Interina d.o.o. Ljubljana	16	19	1	1
Interina Ltd London	104	79	11,341	11,952
Domestic related companies				
Crosco Group	7	9	311	399
Osijek Petrol d.d.	861	815	22	22
Crobenz d.d. Zagreb	783	622	14	10
Proplin d.o.o. Zagreb	367	380	145	117
STSI d.o.o. Zagreb	13	10	942	1,002
Maziva Zagreb d.o.o. Zagreb	107	74	82	76
Companies available for sale				
JANAF d.d. Zagreb	1	-	37	55
Strategic partner				
MOL Plc	239	246	1,287	226
Companies controlled by the State				
Hrvatske željeznice	176	146	34	30
Hrvatska elektroprivreda	2,391	2,128	122	133
Hrvatske telekomunikacije	4	3	21	28
Croatia osiguranje	6	6	46	50
Hrvatske vode	-	-	27	20
Hrvatska pošta	-	1	3	3
Ministarstvo obrane Republike Hrvatske	76	74	-	-
Hrvatske šume	3	3	-	4
Jadrolinija	161	114	5	2
Narodne novine	-	-	3	-
Croatia Airlines	245	169	-	-
Petrokemija Kutina	918	661	-	-
Plinacro	5	5	524	391
Željezara Sisak	-	-	-	1

Trading 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	
	2008	2007	2008	2007
Business partners				
Foreign related companies				
Interina Ltd Guernsey	75	159	851	9
Holdina Sarajevo	130	86	4	3
Interina d.o.o. Mostar	1	33	-	6
Interina d.o.o. Ljubljana	1	5	-	-
Interina Ltd London	-	-	1,751	2,564
Domestic related companies				
Crosco Group	2	4	54	103
Osijek Petrol d.d.	120	134	1	1
Crobenz d.d. Zagreb	158	162	1	2
Proplin d.o.o. Zagreb	80	75	9	8
STSI d.o.o. Zagreb	7	11	512	383
Maziva Zagreb d.o.o. Zagreb	25	18	20	26
Companies available for sale				
JANAF d.d. Zagreb	-	-	7	5
Strategic partner				
MOL Plc	12	15	2	3
Companies controlled by the State				
Hrvatske željeznice	62	56	4	2
Hrvatska elektroprivreda	452	479	6	4
Hrvatske komunikacije	2	3	7	6
Croatia osiguranje	-	-	12	2
Hrvatske vode	-	-	2	1
Hrvatska pošta	2	2	-	-
Ministarstvo obrane Republike Hrvatske	13	17	-	-
Hrvatske šume	4	5	-	-
Jadrolinija	35	39	1	-
Narodne novine	-	-	-	1
Croatia Airlines	41	31	-	-
Petrokemija Kutina	192	93	-	-
Plinacro	1	1	100	38
Željezara Sisak	5	4	-	-

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.

For sale of oil products to the related parties, INA d.d. usually requires collaterals, depending on the risk of marketing the products, except from the customers

that are budget beneficiaries or those fully owned by the state.

The liabilities of the related parties to INA Matica are presented net of allowance for bad and doubtful receivables.

Compensation of key management personnel

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

	INA Matica	
	2008	2007
Short-term employee benefits	43	38
Termination bonuses	2	1
Total	45	39

Included above is 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, assistant directors and secretary of INA, d.d.

Based upon signed representations in connection with the related party disclosure requirements, employees of INA d.d. (46 employees) 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 2008 or 2007.

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 14), presented consolidated 2008 revenue in the amount of HRK 2,283 million (2007: HRK 1,625 million), of which HRK 299 million (2007: HRK 379 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 14).

The Company remains the major customer of its associated

company JANAF d.d., in which it has a holding of 16.00% (Note 18). In 2008, approximately HRK 37 million of the associated company's total revenue in the amount of HRK 375 million account for sales revenue in respect of INA Matica as user of the pipeline system of JANAF d.d. (2007: HRK 52 million out of HRK 360 million total revenue).



40. COMMITMENTS

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

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

Details of guarantees relating to short term bank loans and overdrafts are provided in note 26.

Investment in refining assets

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 terms of the refinery product quality) on the European market. The modernisation of refineries should include the increasingly stricter environmental protection requirements applicable to the fuel production process.

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 and significantly reduce the level of environmental pollution.

For the purposes of the implementation of the refinery modernisation project, 102 contracts were concluded with vendors as at 31 December 2008, worth HRK 3.20 billion.

Purchase of Energopetrol

Based on purchasing of Energopetrol The Consortium INA and MOL according to the above stated Agreement, shall invest KM 150 million in the following three-year period, from the day of transaction execution:

- 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 Agreements

Participation and Joint Operating Agreement in the Contract Area Podravska Slatina – Zalata

On 14 September 2006 INA Matica and MOL concluded a 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.

As the Agreement allows the extension of the exploration period in order to complete any work in progress, on 12 September 2008 the parties signed an understanding of the prolongation of the exploration until the completion of the drilling, appraisal and interpretation of the appraisal for the Well Dravica-1, the spudding of which in the territory of the Republic of Croatia commenced on 11 September 2008.

The Well Dravica-1 has been identified on the basis of a positive appraisal and discovery of a gas condensate field as part of the operation of the 1st exploration well Zalata-1 during 2007 in a part of the contract area in the territory of the Republic of Hungary. The estimated costs of the obligations with respect to the preparation and exploration of the exploration well Dravica-1 amounted to EUR 8 million. In late 2008, a final drilling depth of 3 500 m was reached on the Well Dravica-1 in the total amount of EUR 6.3 million. As a result of the drilling of the Well Dravica-1, several layers have been identified in the gas condensate saturation so that the exploration of the Dravica-1 will take place in 2009. The exploration costs will be agreed between the parties upon the adoption of the technical exploration plan. Since INA is the operator of all the works in the territory of the Republic of Croatia, MOL will cover 50 percent of the drilling and exploration costs of the Well Dravica-1 upon the completion of the works.

Participation and Joint Operating Agreement in the Contract Area Novi Gradac-Potony

On 1 September 2007 INA and MOL concluded Participation and Joint Operating Agreement in the Contract Area Novi Gradac-Potony. The parties will share equally 50 % participating interest in the Agreement.

According to the Agreement the exploration period shall last three years from the date of the execution of the Agreement. The agreed obligations include seismic mapping of an area of 189 sq. km. and the construction of the exploration wells.

The seismic mapping, which commenced in late 2007, was completed in early 2008. During 2008, the seismic data processing and analysis was completed, and the costs amounted to EUR 130 thousand. Since the seismic mapping took place in the territories of both the Republic of Croatia and the Republic of Hungary, which implied double operation of the parties, in 2008, INA settled its obligations towards MOL, GES and the so-called Third Party (indemnities to legal and natural persons for field damage) with respect to the seismic mapping works as follows:

- Potony: INA settled 50 percent in the amount of EUR 478 thousand;
- Novi Gradac: of the total EUR 2.2 million, EUR 1.3 million were settled by INA and EUR 855 thousand by MOL.

The difference in the cost participation arise due to the Third-party item (indemnities to legal and natural persons for field damage), in which INA participated to the extent of 70 percent and MOL to the extent of 30 percent of the costs.

The first exploration well of the Novi Gradac-Potony Project is to be constructed in 2009 in the territory of the Republic of Hungary. INA's maximum obligation with respect to the construction of the first exploration well amounts to EUR 4.1 million. The construction of the second exploration well has been planned for 2010, provided that the first well receives positive assessment.

Purchase obligations under "take or pay" contracts

On 1 June 2005 Ina Industrija Nafta 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 2007 the Company's respective obligation is HRK 5,3 billion 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 (FCA Croatian border). Validities of transportation contracts are until 2010 for Slovakia, 2015 for Slovenia and 2017 for Austria. The future commitments contracted approximate to HRK 2,5 billion until 2017.

Gas selling Contracts

Group had following long term natural gas sale contracts from 31 December 2008 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 (in 2009)
 - b) Annual sales: 980 million HRK
 - c) Contract period: until 2015
 - d) Estimated revenue for the remaining period (2009-2015): 11,3 billion HRK
2. Long-term contract between INA and PETROKEMIJA d.d. Kutina
 - a) Contracted supply quantity: 665,000,000 m³/year
 - b) Annual sales: 884 million HRK
 - c) Contract period: until 2010
 - d) Estimated revenue for the remaining period (2009-2010): 1,9 billion HRK

3. Contracts between INA and tariff-based customers (distribution entities) – natural gas

- a) Contracted supply quantity: 1,416,987,300m³ in 2009
- b) Annual sales: 1.9 billion HRK
- c) Contract period: until 2009
- d) Estimated revenue for the remaining period: 1.9 billion HRK

4. Contracts INA – other tariff-based customers – natural gas

- a) Contracted supply quantity: 409,091,449 m³ in 2009
- b) Annual sales: 580.9 million HRK
- c) Contract period: 2009
- d) Estimated revenue for the remaining period. 580.9 million HRK

5. Contracts INA – DIOKI (ethane)

- a) Contracted supply quantity: 57,000 tons in 2009
- b) Annual sales: 105.6 million HRK
- c) Contract period: 2012
- d) Estimated revenue for the remaining period (2009-2012): 437.8 million HRK

Water selling contracts

1. High quality process water

- a) Contracted supply quantity: 2,298,650 m³ in 2009
- b) Annual sales: 4.9 million HRK
- c) Contract period: 2009
- d) Estimated revenue for the remaining period. 4.9 million HRK

2. Geothermal water

- a) Contracted supply quantity: 410,000 m³ in 2009
- b) Annual sales: 1.6 million HRK
- c) period: 2009
- d) Estimated revenue for the remaining period. 1.6 million HRK

N-pentane selling contracts

1. N-pentane

- a) Contracted supply quantity: 850 m³ in 2009
- b) Annual sales: 2.5 million HRK
- c) Contract period: 2009
- d) Estimated revenue for the remaining period. 2.5 million HRK

41. 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 activities are monitored by local management and environmental authorities.

For the purpose of an efficient environmental protection, Croatia has passed an Environmental Protection Act (Official Gazette No. 110/07) as the principal regulation providing a general environmental protection framework, and the related costs can be expected in the next following years.

Thus, a Decree on Greenhouse Gas Emission Quota and Trading in Emission Units was passed in 2008 (Official Gazette No. 142/08), according to which, the emission trading system includes the Rijeka and Sisak Refineries, and the plants Etan and Molve. An assessment of the actual financial impact of the Decree on INA's performance will be able only following the adoption of the Plan of the Distribution of Emission Quota in the Republic of Croatia.

To be able to export its product to the EU territories, INA

commenced the pre-registration of its products within the timeframe specified by the REACH 1907/2006 via MOL as a single representative within the EU.

Croatia has applied for membership in the European Union. As part of the accession process, strict environmental regulations similar to those at other EU countries will be gradually introduced in Croatia.

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 and removal of previous pollution. 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 earlier pollution at around HRK 200 million. Based on the report, INA d.d. made a provision in its accounts in the amount of HRK 35 million, which was charged to operating expenses, to cover any potential costs that may arise in connection with the removal of potential consequences of soil and underground water.

Investments regarding environmental protection during 2008

Also, being an environmentally aware corporation, INA d.d. gives priority to the investments in the modernisation of its plants towards full compliance with environmental protection requirements. In this respect, the 2008 investments in the projects linked with environmental protection amounted to over HRK 126 million, of which HRK 104 million was in the Refinery and Marketing business segments, around HRK 17 million in the Retail business, and HRK 5 million in the Exploration business. These investments do not include the investments in the refinery modernisation, the top priority of which is to improve the product quality but which also possess a significant ecological dimension.

According to the legal requirements, INA has funds allocated for the purpose of becoming compliant with the Croatian air protection regulations within the next few years. This primarily includes the reconciliation of emission of air from stationary sources and with the technical environmental standards for evaporable organic compounds produced during storage and distribution of petrol.

The Plan for the Reconciliation with the Technical Environmental Standards for the Protection Against Evaporable Organic Compounds was revised during 2008, and an estimate was made that, by the end of 2012, INA will invest HRK 714 million in the storage areas, terminals and petrol stations.

For the purpose of reconciling the emissions from large heating systems, which is required by the Decree on the Limit Values of Emission of Air Pollutants from Stationary Sources,

INA has budgeted HRK 675 million, of which slightly over HRK 408 million are to be invested in the Rijeka Refinery and around HRK 267 million in the Sisak Refinery.

Irrespective of the projects specified above, significant investments will be made in other projects with indirect environmental benefits. Those investments, taken as a whole, will exceed the amounts budgeted for the projects with direct environmental benefits.

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 2004 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 intends to continue legal proceedings in order to recover the remaining US\$ 10 million. The Group will record in the amount of released cash and paid to the Group.

42. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Gearing ratio

The Treasury of INA Matica and the INA Group reviews the capital structure on a semi-annual basis. As part of this review, the Treasury considers the cost of capital and the risks associated with each class of capital.

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

	INA Group		INA Matica	
	2008	2007	2008	2007
Debt:	7,144	4,923	4,627	3,130
Long term loans	4,554	3,130	4,331	2,988
Short term loans	2,492	1,664	249	97
Current portion of long-term borrowings	98	129	47	45
Cash and cash equivalents	(579)	(720)	(318)	(299)
Net debt	6,565	4,203	4,309	2,831
Equity	12,002	13,643	11,247	12,591
Net debt to equity ratio	55%	31%	38%	22%

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

Categories of financial instruments

	INA Group		INA Matica	
	2008	2007	2008	2007
Financial assets				
Loans and receivables (including cash and cash equivalents)	4,420	4,643	3,642	3,970
Available-for-sale financial assets	201	656	201	656
Financial liabilities				
Amortised cost	10,967	8,455	10,497	8,102
Financial guarantee contracts	1,157	596	1,157	596

Financial risk management objectives

The Group is exposed to international markets and takes on significant borrowings denominated in foreign currencies. As a result, the Group is exposed to fluctuations in market prices of crude oil, natural gas and refinery products, as well as to the effects of fluctuations in exchange and interest rates. Because of credit sale of goods, the Group is also exposed to credit risk.

The Treasury function at INA Matica provides financial services for the company and coordinates access of the Group to domestic and international markets, monitors and manages the financial risks relating to the operations of INA Matica. The most significant risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk and liquidity risk.

The major risk exposures, together with the techniques has used to manage those risks, are set out below. The Group used derivative instruments for managing those risks to a very limited extent. The Group does not use derivative financial instruments for speculative purposes.

Foreign currency risk management

The Company undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise.

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

INA Group

	Liabilities		Assets	
	2008	2007	2008	2007
	million HRK	million HRK	million HRK	million HRK
Currency US\$	7,228	5,569	923	803
Currency EURO	615	256	491	242
	7,843	5,825	1,414	1,044

INA Matica

	Liabilities		Assets	
	2008	2007	2008	2007
	million HRK	million HRK	million HRK	million HRK
Currency US\$	7,326	5,524	1,052	992
Currency EURO	264	198	417	198
	7,590	5,722	1,469	1,190

Market risk

Commodity price risk management (price risk)

The volatility of crude oil and gas prices is the prevailing element in the business environment of the Group. The Group buys oil mostly through short-term arrangements in US dollars at the spot market price. The Group also imports a significant portion of gas to cover its requirements at the cost price denominated in US dollars, repriced on a quarterly basis, in accordance with the underlying long-term gas purchase agreements.

INA Matica generates most of its sales from refinery products and wholesale of gas. The formula for determining the refinery product prices, specified by the Oil Refinery Product Price Regulation effective since 2001, hedges the Group from the changes in the oil and refinery prices, and foreign exchange risk to a large extent, as it enables the refinery products to be repriced every two weeks, depending on the market (Platts) prices and the fluctuations in the exchange rate of Croatian kuna to US dollar. During 2008, the pricing formula could not have been applied to the full extent because of the activities of the competent bodies.

The Group does not use any forward agreements to manage its oil and gas price risk.

Foreign currency sensitivity analysis

The Company is mainly exposed to the currencies of the countries whose currency is US dollar, which is the currency in which oil and gas purchases on the international market are denominated in general.

The following table details the Company's sensitivity to a 10% increase in Croatian kuna in 2008 (in 2007: 10 %). against the relevant foreign currencies. The sensitivity rates used represent management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analy-

sis includes only outstanding foreign-currency denominated monetary items and adjusts their translation at the period end for a change in foreign currency rates expressed as a percentage. The sensitivity analysis includes monetary assets and liabilities in foreign currencies. A negative number below indicates a decrease in profit where Croatian kuna changes against the relevant currency by the percentage specified above. For the same change of Croatian kuna versus the relevant currency in the opposite direction, there would be an equal and opposite impact on the profit.

INA Group

	Currency US\$ Impact		Currency EUR Impact	
	2008	2007	2008	2007
	million HRK	million HRK	million HRK	million HRK
Profit / (loss)	(639)	(489)	(19)	8
	(639)	(489)	(19)	8

INA Matica

	Currency US\$ Impact		Currency EUR Impact	
	2008	2007	2008	2007
	million HRK	million HRK	million HRK	million HRK
Profit / (loss)	(635)	(465)	8	9
	(635)	(465)	8	9

The exposure of the 10% fluctuation in the exchange rates for the currencies presented above is mostly attributable to the condition of the supplies and borrowings denominated in US dollars (USD).

Interest rate risk management

The INA Group is exposed to interest rate risk as entities in the Group borrow funds at both fixed and floating interest rates, with most of the Group's borrowings bearing interest at variable rates.

Interest rate risk analysis

The sensitivity analysis below has been determined based on the exposure to interest rates at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 200 basis point increase or decrease is used when reporting interest rate

risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 200 basis points higher/lower and all other variables were held constant, the changes in interest expense of INA Matica would be as presented below. Because of the increase in the long-term debt at variable rates, the exposure to a potential change in the interest rates on profits has also increased.

If interest rates had been 200 basis points higher/lower, the profit of the INA Group in 2008 would be increased/decreased by HRK 141 million (2007: increase/decrease

	INA Grupa		INA Matica	
	2008	2007	2008	2007
Short-term interest expense change	48	1	5	1
Long-term interest expense change	93	16	87	15
Total change:	141	17	92	16

by HRK 17 million had the interest rates been 50 basis points higher/lower, and by HRK 105 had the interest rates been 200 basis points higher/lower), and the profit of the Matica in 2008 would be increased/decreased by

HRK 92 million (2007: increase/decrease by HRK 16 million had the interest rates been 50 basis points higher/lower, and by HRK 63 million had the interest rates been 200 basis points higher/lower).

Other price risks

The Group is exposed to equity price risks arising from equity investments. Equity investments are held for strategic rather than trading purposes.

Equity price sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date. If equity prices had been 10% higher:

- net profit for the year ended 31 December 2008 would have been unaffected as the equity investments are classified as available-for-sale; and
- other equity reserves of INA Matica would increase by HRK 10 million (2007: increase by HRK 54 million) as a result of the changes in fair value of available-for-sale shares. If equity prices had been 10% lower, there would be an equal and opposite impact on equity.

The Group's sensitivity to equity prices has not changed significantly from the prior year.

Credit risk management at INA d.d.

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. INA Matica has adopted a Credit Risk Management Procedure, which it applies in dealing with its customers, and obtains collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. Debentures, being the prevailing payment security instrument on the Croatian market, are mainly taken as collateral.

Counterparties are classified into risk groupings by reference to their financial indicators and the trading records with INA Matica, and appropriate measures to provide pro-

tection against credit risk are taken for each of the groups. The information used to classify the counterparties into the risk groupings is derived from the official financial statements and reports of the customers, obtained from independent rating agencies and the own trading records of INA Matica.

The exposure of INA Matica and the credit ratings of its counterparties are continuously monitored and credit exposure is controlled by counterparty limits that are reviewed at least on an annual basis.

INA Group transacts with a large number of counterparties from various industries and of various size. The highest concentrations of credit risk are towards state institutions and state-owned counterparties. Given that the Republic of Croatia is a major shareholder of the Group itself, credit risks depends to a significant extent on the policy of the Croatian Government.

There is no significant credit risk exposure of INA Matica that would not be covered with collateral, other than those to the above mentioned institutions and entities controlled by the state, so a realistic credit risk as of 31 December 2008 is 6.2% of the total receivables (2007: slightly below 5%).

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Management Board, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of receivables and payables.

Liquidity and interest risk tables

The following tables detail the remaining contractual maturity for financial liabilities of INA Matica and of the Group at the period end. The tables have been drawn up based on the undiscounted cash flows based on the earliest date on which the payment can be required. The tables include both interest and principal cash flows.

INA Group

	Less than 1 month	1 - 3 months	3 - 4 months	4 month to 1 year	1 - 5 years	5+ years	Total
2008							
Non-interest bearing	4,590	965	1	248	4	1,624	7,432
Interest bearing	2,130	-	165	267	4,582	-	7,144
	6,720	965	166	515	4,586	1,624	14,576
2007							
Non-interest bearing	3,354	1,161	-	194	-	1,641	6,350
Interest bearing	-	161	-	1,632	3,130	-	4,923
	3,354	1,322	-	1,826	3,130	1,641	11,273

INA Matica

	Less than 1 month	1 - 3 months	3 - 4 months	4 month to 1 year	1 - 5 years	5+ years	Total
2008							
Non-interest bearing	3,823	700	1	85	4	1,523	6,136
Interest bearing	1,164	1,533	132	174	4,331	-	7,334
	4,987	2,233	133	259	4,335	1,523	13,470
2007							
Non-interest bearing	2,860	784	-	97	-	1,539	5,280
Interest bearing	-	98	1,982	45	2,988	-	5,113
	2,860	882	1,982	142	2,988	1,539	10,393

Non-interest bearing liabilities of INA Matica due in a period of less than one month consist mainly of trade accounts payable in the amount of HRK 2,586 million in 2008 (2007: HRK 2,305 million) and taxes and contributions payable in the amount of HRK 1,087 million (2006: HRK 535 million).

Included in non-interest bearing liabilities of INA Matica due in a period of over five years are, among others, long-term decommissioning provisions for oil and gas properties in the amount of HRK 1,009 million in 2008 (2007: HRK 1,069 million).

Interest bearing liabilities include short-term and long-term borrowings and amounts due to oil suppliers, both for the INA Group and INA Matica.

The same has been applied for the Group.

As a rule, INA Matica imports crude oil and refinery products through its foreign operations Interina London and Interina Guernsey. In accordance with common international practice, oil purchases are effected by opening documentary letters of credit in favour of the supplier at first-class commercial banks and using trade financing.

Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices;
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

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	
	2008	2007
Fair value at 1 January	323	328
Financial income/loss relating to the net change in fair value in the year (Note 6 and 7)	(139)	(5)
Fair value at 31 December	184	323

	INA Group and INA Matica	
	2008	2007
Analysed as:		
Current portion	106	97
Non-current portion	78	226
	184	323

43. SUBSEQUENT EVENTS

Changes in legislation

Amendments to the Regulation on Determining Petroleum Product Prices became effective on January 1, 2009 (Official Gazette No. 23/12/2008), according to which the basic price of petroleum products is derived by reference to the EURO V standard, and the products of other norms are priced using pre-defined parameters (coefficients) in relation to EURO V. Until December 31, 2008, the fee payable to finance the activities of the Croatian Agency for Obligatory Petroleum and Petroleum Product Stock was charged at HRK 150 per ton of the motor fuel and aviation fuel sold, HRK 190 per ton of diesel and gas oil, and HRK 80 per ton of jet fuel and heating oil. From January 1, 2009, the fee payable by the Regulation is determined as follows:

The fee established for financing the work of Croatian Agency for Obligatory Petroleum and Petroleum Product Stock in 2009, for the petroleum products sold on the domestic market from January 1, 2009 to December 31, 2009 shall amount to the following:

- HRK 200 per ton of the petroleum products sold, accrued and paid to the Agency pursuant to article 12, paragraph 1, point I of the Act on Petroleum and Petroleum Product Market (hereinafter: the Act);

- HRK 300 per ton of the petroleum products sold, accrued and paid to the Agency pursuant to article 12, paragraph 1, point II of the Act, except for the jet fuel;

- HRK 50 per ton of petroleum products sold, accrued and paid to the Agency pursuant to article 12, paragraph 1, point III of the Act, including the jet fuel.

Disposal of the entire equity share in the company Podzemno skladište plina d.o.o

On January 30, 2009, the Agreement on the Sale of the Entire Equity Share in the Company was signed, by which INA d.d. sold its equity share to the company Plinacro d.o.o. (fully owned by the Republic of Croatia), which thus became the owner of the Underground Gas Storage Okoli. The agreement is worth HRK 514 million.

44. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Management Board and authorised for issue on 17 March 2009.

Signed on behalf of the Company on 17 March 2009 by:

Zalán Bács



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

Tomislav Dragičević



President of the Management Board

ADDRESS BOOK

HEAD OFFICE

INA – Industrija nafte, d.d.

10020 Zagreb
Avenija Većeslava Holjevca 10
p.p. 555
Head office : +385 (0)1 6450 000
e-mail: ina-besplatni.telefon@ina.hr
INA FREE TELEPHONE: 0800 1112
www.ina.hr

COMPANIES IN CROATIA IN INA' S OWNERSHIP OR IN WHICH INA HAS EQUITY

1. CROSCO d.o.o.

10000 Zagreb
Ul. Grada Vukovara 18
Telephone: +385 (01) 36 52 333
Fax: +385 (01) 36 52 292
e-mail: info@croscoc.com
www.croscoc.com

2. STSI d.o.o.

10000 Zagreb
Lovinčićeva bb,
Telephone: +385 (01) 23 81 122
Fax: +385 (01) 24 50 103
e-mail: stsi@stsi.hr
www.stsi.hr

3. MAZIVA - ZAGREB d.o.o.

10000 Zagreb
Radnička cesta 175
Telephone: +385 (01) 24 12 000
Fax: +385 (01) 24 12 250
e-mail: maziva@maziva.hr
www.maziva.hr

4. PROPLIN d.o.o.

10000 Zagreb
Savska cesta 41/II
Telephone: +385 (01) 60 01 900
Fax: +385 (01) 60 01 961
www.proplin.hr

5. HOSTIN d.o.o.

10000 Zagreb
Ulica Grada Vukovara 78
Telephone: +385 (01) 61 55 158
Fax: +385 (01) 61 55 159
e-mail: hostin@zg.htnet.hr
www.hostin.hr

6. ITR d.o.o.

10000 Zagreb
Šubićeva 29
Fax: +385 (01) 45 92 611
Telefax: +385 (01) 46 17 953

7. SINACO d.o.o.

Savska 41/XIII, 10000 Zagreb
Ante Kovačića 1, 44000 Sisak
Telephone: +385 (01) 61 23 192, Sisak : (044)51 22 44
Fax: +385 (01) 61 23 150, Sisak (44) 53 33 03
e-mail: sinaco@sinaco.hr
www.sinaco.hr

8. CROBENZ d.d.

10000 Zagreb
Radnička cesta 228
Telephone: +385 (01) 24 15 100
Fax: +385 (01) 24 07 373
www.crobenz.hr

9. PETROL d.d.

51213 Jurdani
Jurdani bb
Telephone: +385 (51) 27 92 21
Fax: +385 (51) 27 92 21

10. INA-OSIJEK PETROL d.d.

31000 Osijek
Ivana Gundulića 5
Telephone: +385 (31) 25 06 70
Fax: +385 (31) 25 06 71
e-mail: info@osijek-petrol.hr
www.osijek-petrol.hr

**COMPANIES ABROAD IN INA'S OWNERSHIP
OR IN WHICH INA HAS EQUITY**

1. INTERINA d.o.o. LJUBLJANA

1000 Ljubljana, Slovenija
Kotnikova 5
Telephone: +386 (1) 30 09 240
Fax: +386 (1) 43 20 069
e-mail: interina@interina.si
www.interina.si

2. INA BH d.d. SARAJEVO

71000 Sarajevo, BiH
Azize Šaćirbegovića 4b
Telephone: +387 (33)71 21 60
Fax: +387 (33)71 21 61

3. INA d.o.o. BEOGRAD

11000 Beograd, Serbia
Jove Ilića 4
Telephone: +381 (11) 30 99 333
Fax: +381 (11) 30 99 444
e-mail: office@inabgd.rs

4. INA-CRNA GORA d.o.o. Podgorica

81000 Podgorica, Montenegro
Ul. 18. jula br 33
Telephone: +382 (81) 26 53 95
Fax: +382 (81) 26 53 96
e-mail: inacg_podgorica@t-com.me

5. HOLDINA d.o.o. SARAJEVO

71000 Sarajevo, BiH
Azize Šaćirbegovića 4b
Telephone: +387 (33) 27 65 00
Fax: +387 (33) 65 86 16

6. ADRIAGAS S.r.l. MILANO

20123 CAP, Milano, Italy
Piazza del Duomo 17
Telephone: +39 (2) 72 094 718
Fax: +39 (2) 89 097 159

7. INA HUNGARY Co. Ltd. BUDAPEST

1025 Budapest, Hungary
Aldas u. 5
Telephone: +36 (1) 20 27 094
Fax: +36 (1) 20 22 292

8. INTER INA Ltd. LONDON

London Great Britain
112 Jermyn Street, SE1Y 6LS,
Telephone: + 44 (20) 79 25 01 26
Fax: + 44 (20) 79 25 04 18

9. INA – KOSOVO d.o.o. PRIŠTINA

38000 Priština, Kosovo
Devet Jugovića (Bardosh)
Telephone: (381) 38 515 811
Fax: (381)38 515 884
e-mail: ina.kos@hotmail.com

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