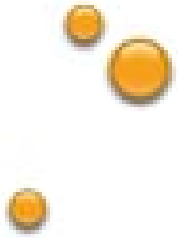
INA ANNUAL REPORT 2005



ANNUAL REPORT 2005

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Incorporation

The company, INA - Industrija Nafte d.d. Zagreb (INA), the parent company of INA Group, is a joint stock company owned by the Republic of Croatia, MOL, Hungarian Oil and Gas Plc. (25% plus one share) and the Croatian War Veterans' Fund (7% of INA's 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 1993 INA became a share based company (or "d.d.").

INA Group

The INA Group comprises the parent company INA d.d. and a number of wholly and partially owned subsidiaries or associate companies. The headquarters of the group are located in Zagreb, Avenija V. Holjevca 10, Croatia.
As at 31 December 2005, the group employed 15,989 personnel.
The group has leading positions in Croatia over oil and gas exploration and production, oil refining and the distribution of gas and petroleum products.

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

- exploration for and exploitation of oil and gas deposits, primarily onshore and offshore within Croatia; other licence interests are held in Angola, Egypt, Syria and Namibia;
- importation of natural gas and the sale of imported and domestically produced natural gas to industrial consumers and municipal gas distributors;
- refining and production of oil products through refineries located at Rijeka (Urinj) and Sisak, and the Rijeka (Mlaka) and Zagreb lubricants plants;
- distribution of fuels and associated products through a chain of some 415 retail outlets and terminals currently in operation throught Croatia, including 42 retail outlets in neighbouring countries;
- trading in crude oil and petroleum products;
- service activities incidental to on-shore and off-shore oil extraction through its drilling, workover and other oilfield services subsidiary Crosco d.o.o.
- service activities related to oil and gas pipeline construction, construction and maintenance of processing plants and other services provided by subsidiary STSI d.o.o.
- manufacturing and marketing of lubricants, industrial greases and related products carried out by Maziva Zagreb d.o.o.
- filling and distribution of LPG (bottles, small bulks, automotive gas) by PROplin d.o.o.
- operation and management of INA's holiday homes, hotels and apartment villages carried out by HOSTIN d.o.o. Zagreb.
- car and boat rental carried out by ITR d.o.o. Zagreb
- safety and security services carried out by SINACO d.o.o.

General Assembly

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

Supervisory Board	
Ivan Šuker	Chairman
Zoltán Áldott	Deputy Chairman
Božidar Kalmeta	
Damir Polančec (since May 2005)	
Tomislav Ivić (since May 2005)	
György Mosonyi	

Management Board	
Tomislav Dragičević, ScD	President of the Board
László Geszti	Vice-president of the Board - Executive Director Finance Function
Mirko Zelić	Member of the Board - Executive Director Exploration and Production Division
Josip Petrović	Member of the Board - Executive Director Refining and Wholesale Division (since 1 August 2005)
Ivan Brusić	Member of the Board - Executive Director Retail Services Division (1 August 2005 - 5 May 2006)
Zalán Bács	Member of the Board - Director Corporate Services Function (since 1 February 2005)
Tomislav Thür	Member of the Board - Director Corporate Processes Function

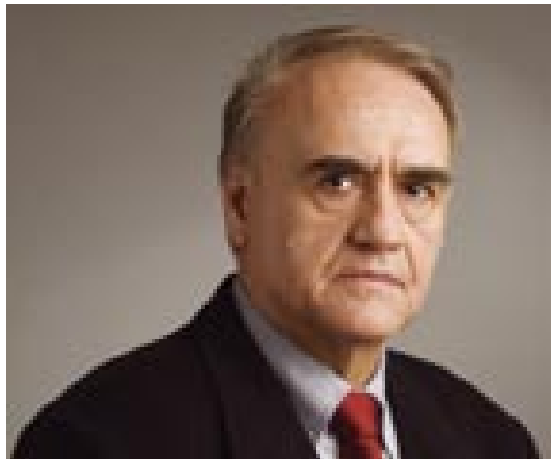
Before publication of this Annual Reports Mr. Ivan Brusić left the Retail Services Division and Mr. Niko Paulinović was appointed a member of the Board and Executive Director of the Retail Services Division

Tomislav Dragičević, President of the Management Board

Dr Tomislav Dragičević (54), doctor of chemical sciences, was appointed general director of INA in March 2000. From June 2000, following implementation of the new Articles of Association, he became the President of the Management Board. Prior to his appointment to this post Dr Dragičević was Director of Strategic Planning and R&D Sector and before that Director of Refining. He joined INA in 1982 and before that he worked in the petrochemical plant as a head of processing unit. He graduated from the Faculty of Chemical Engineering, University of Zagreb. In 1984 he got his master's degree and in 1993 his doctor's degree in chemical engineering. Since 1995 he has been a fellow of the Croatian Academy of Science and Art, Section IV - Petrochemistry.

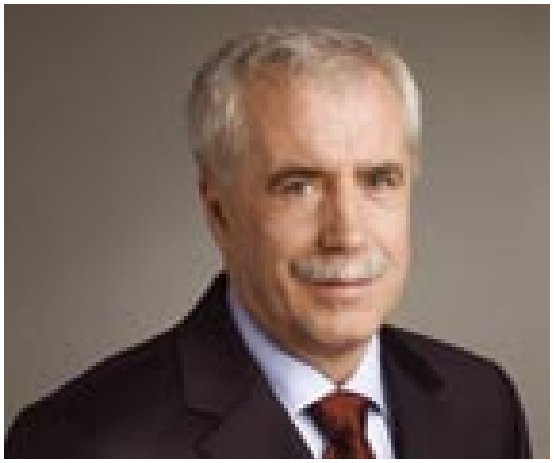
László Geszti, Vice President of the Management Board and Chief Financial Officer

László Geszti (55) graduated from the University of Economic Sciences in Budapest. Before his appointment to the position of Chief Financial Officer at INA, Mr Geszti was Managing Director of the Refining and Marketing Division of MOL Plc. He joined MOL in 1999 and was appointed Managing Director of the Marketing Division. Before that Mr. Geszti held important managerial positions in the Hungarian oil and gas industry since 1981. He was deputy finance director of Shell's operations in Hungary. Then, in 1985, he was promoted to CEO and Chairman of the Board. In 1992 he joined Mineralimpex, the foreign trade organisation of the Hungarian oil industry, where he first worked as an adviser, later as the director of trade.



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

Dr Mirko Zelić (70) joined the Management Board of INA from the Mining and Petroleum Engineering Faculty, University of Zagreb where he had been a professor. Dr. Zelić started his professional career at INA Naftaplin in 1964. He worked in various positions: as an engineer, head of Department for the preparation of oil and gas for production, director of Production Sector, assistant to the executive director of E&P Division of INA. He is the author of five books and over 40 scientific papers and a number of innovations in the area of oil and gas production. Dr. Zelić has been the fellow of the Croatian Academy of Science and Arts since 1997. Since 2000 he has been the president of Executive Committee of Technical Sciences Department.



Josip Petrović, member of the Board and executive director of Refining and Wholesale

Josip Petrović (54) graduated from the Faculty of Economics, University of Zagreb and had his master's degree in Marketing in 1992. He joined INA in 2004 first at the position of executive director of Retail Services and then in August 2005 he took the position of executive director of Refining and Wholesale and became a member of the Board. Before that Mr. Petrović was an adviser to the President of the Board of Agrokor Group (from April 2000). His first employment was at Industrogradnja. After internship he was promoted to the position of head of market research and advertising department. After that he joined the footwear factory, Šimecki, where he was the production manager. He was an adviser to the general director of the textile machinery and measuring devices factory for some time and then he took the position of general director of Unikonzum, a retail and wholesale chain. He joined Agrokor in 1995 and between 1998 and 2000 he was the chairman of the Board of the Intercontinental Hotel, Zagreb. Before joining the Refining and Wholesale Division in August 2005 he was a member of the Board and Executive Director of Retail Services Divsion.

Ivan Brusić, member of the Board and executive director of Retail Services

Ivan Brusić (55) graduated in 1975 from the Technical Faculty - Naval Architecture , University of Rijeka. In 1977 he became a certified engineering designer and construction supervisor. Mr. Brusić started his professional career at the Viktor Lenac shipyard and in 1980 he worked for a year in the 3rd May shipyard in Rijeka. After that he joined the petrochemical industry, DINA, where he worked as a manager from 1994 to 1996. He came to INA in 1996 and from 1997 to 2000 he was acting director of the Rijeka Refinery. Before his appointment to the position of Retail Services executive director Mr. Brusić was the Technical Director for maintenance and investments in the Rijeka Refinery.

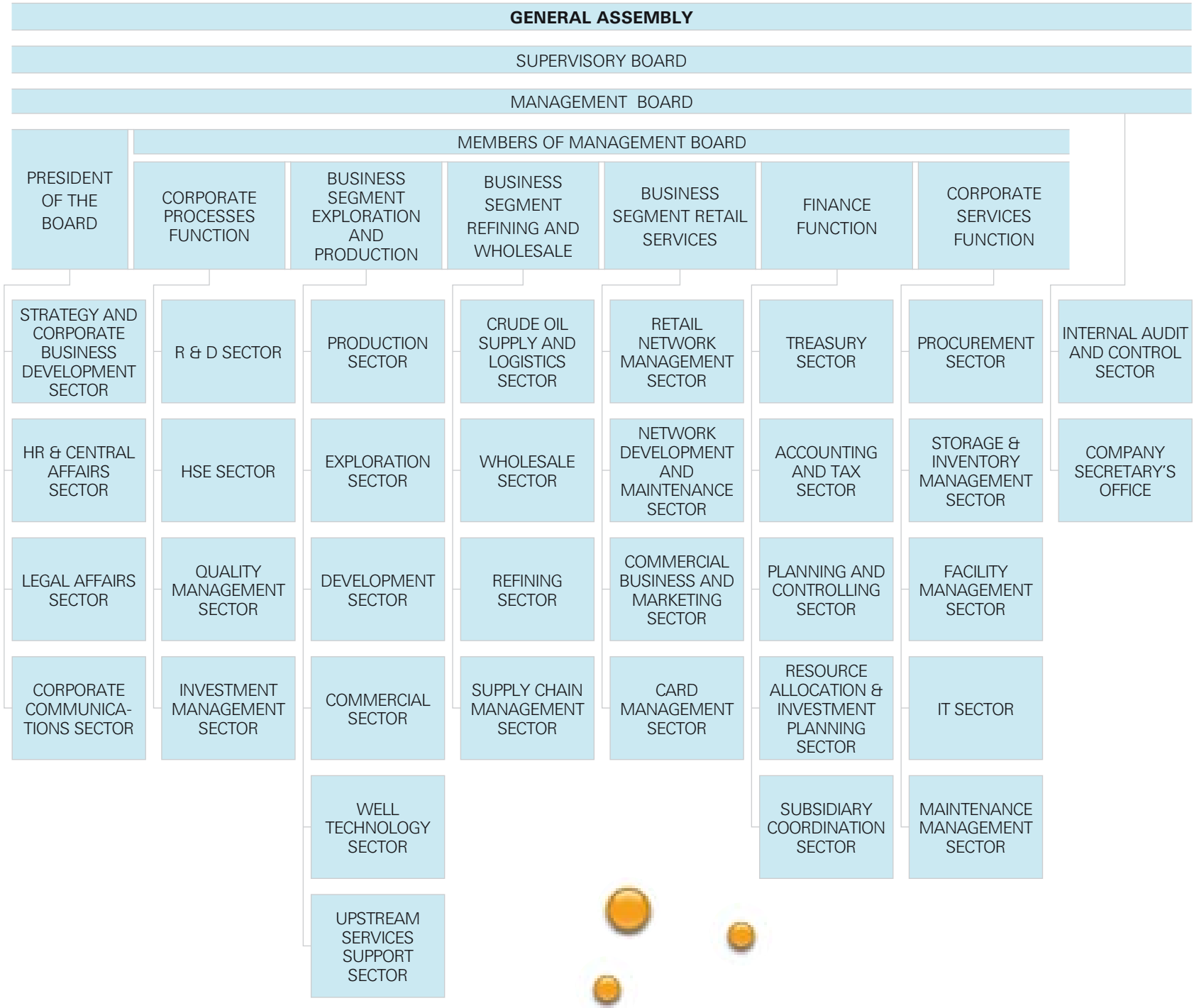
Tomislav Thür, member of the Board and director of Corporate Processes

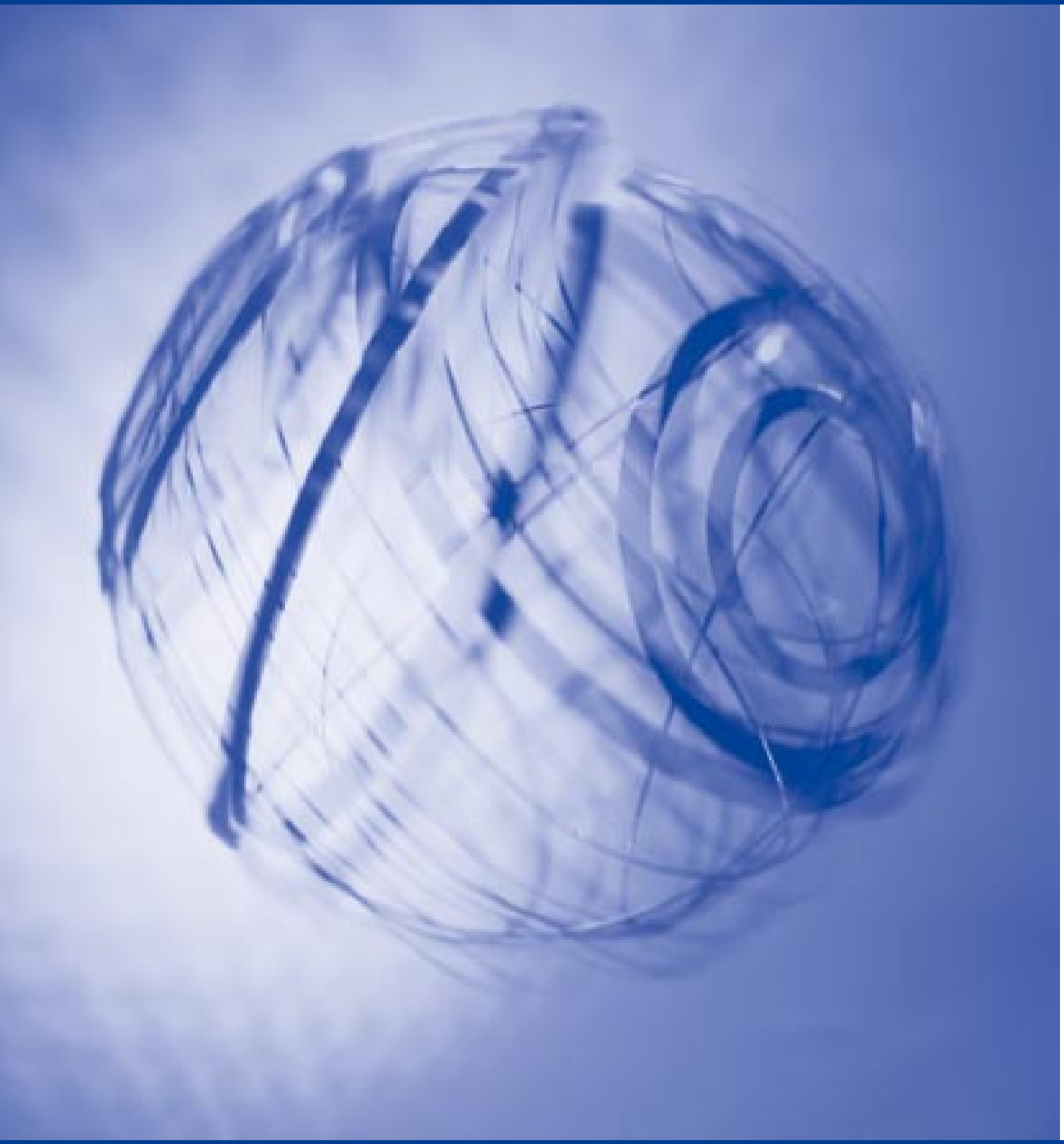
Tomislav Thür (39) graduated from the Faculty of Law, University of Zagreb in 1991 and in 1998 he took his master's degree at the Harvard Law School. Before his appointment to the Board of INA and director of Corporate Processes, Mr. Thür was general secretary in the Atlantic Group which he joined in 2001. He started his career in the lawyer's office of Odić-Rubčić. In 1992 he joined the liaison Croatian Office with European Community Observers Mission. In May 1992 he joined the Croatian Ministry of Foreign Affairs. Until 2001 he was in diplomatic service and carried out various duties. Mr. Thür attended executive training courses at the London Business School and INSEAD.

Zalán Bács, member of the Board and director of Corporate Services

Mr. Zalán Bács (38) replaced Mr. Béla Cseh on the Board of INA on 1st February 2005. Before joining INA he was Chief Financial Officer of MOL Petchem Division including TVK which makes part of this Division. Before that position Mr. Bács was Chief Controller of the MOL Group, project manager in Slovnaft, Head of Resource Allocation in MOL, general manager of MOL Romania. He started his career in MOL Marketing Department.
After graduation from the Chemical Engineering Faculty, Technical University of Budapest he took his master's degree in chemical engineering. In 1994 he attended MBA - Budapest University of Economic Sciences / London Business School.

INTRODUCTION
SCHEME OF MACRO-ORGANISATIONAL STRUCTURE





INTRODUCTION
LETTER BY THE PRESIDENT OF THE MANAGEMENT BOARD

The year 2005 was another successful year for INA. The parent company, INA d.d., generated a net profit of HRK 892 million (USD 150 million) and on the Group level the net profit was HRK 885 million (USD 149 million). The total turnover of INA d.d. reached HRK 19.2 billion, an increase of 21% compared to the previous year' s turnover results.
In 2005 refining margins were around the level of the previous year, while crude oil prices on the international market continued to increase throughout the year with an average increase of 42% compared to 2004. At the same time the prices of oil products in the Croatian market grew by only 26%. The cost of imported natural gas was also significantly higher than in 2004 and these factors, combined with the lower output of refined products, had an impact on the net profit of the parent company and the Group which were lower than in previous year.

During 2005, INA continued its investments in the two most important exploration and development projects: the development of the gas fields in the North Adriatic area and the exploration and development projects in Syria.
The North Adriatic project, the largest development project in Croatia, included the development operations and start-up of production from the two new gas fields - Ida and Ika.
In total 11 development wells were drilled and 5 production platforms were installed on these two fields. In addition, the laying of an intrafield export pipelines began in 2005 and continues in 2006.
Intensive development activities were carried out on the new Katarina gas field in the Aiza-Laura contract area. A production platform jacket was installed and the drilling of three development wells commenced at the beginning of 2006.
During 2005 an additional development well was drilled and completed on the largest offshore gas field, Ivana, which has been in production since 1999. Also, the installation of the Ivana K platform for compression and dehydration of gas was completed within the scope of the construction of common facilities. Works have also begun on the installation of the pipeline from Ivana K to the shore, where it will be connected to the land pipeline from Pula to Karlovac.
It is expected that in the middle of 2006 the production of gas from the Adriatic offshore fields will be over 4 million cubic meters, which is divided among the partners ENI and INA on an equal basis. And what is very important, with the construction of underwater pipelines connecting the fields and its link to the land pipeline, is that the offshore gas fields will supply additional gas volumes to consumers in Croatia in the 2006 heating season.

In addition to the notice of discovery of commercial reserves of gas, condensate and oil on the Jihar field in Syria, in March 2005, INA submitted to the Syrian Oil Ministry and Syrian Petroleum Company (SPC) the Notice of commercial discovery and a proposed development plan for the Palmyra field and Al Mahr field on the Hayan block.
In order to proceed with the development of the three fields and the production of gas and condensate, INA signed, on 29 August 2005, the Gas Sales Agreement with the Syrian Gas Company and Syrian Petroleum Company.

In August 2005 oil production commenced from the Jihar-2 well and by the end of that year this well produced a total of 7,106 tonnes of oil.
Oil production increased on INA's concessions in Egypt. In 2005 the total oil production from this country was 104,064 tonnes compared with 78,179 tonnes in 2004. The most intensive development operations were carried out on the Ras Qattara block where 12 development wells were drilled instead of the 5 wells originally planned. The other two blocks with production fields are the North Bahariya and the West Abu Gharadig.
In Angola, INA signed a new Production Sharing Agreement with the national company, Sonangol, and acquired production rights on the block 3/05 until 2025.
Successful international exploration and development operations have ensured additional volumes of hydrocarbons for INA and in the years to come we expect this output to grow, particularly when we complete our development projects in Syria.

INA's Refining and Wholesale Division is making efforts to meet the growing demand for higher quality products according to Euro IV specification. In the second half of 2005 processing units in both fuel refineries, in Rijeka and Sisak, were prepared for the production of larger volumes of gasoline and diesel with a 50 ppm sulphur content.
As a result, the output of European quality products increased by 22% in comparison with 2004. However, until the full scale refinery modernisation project is completed INA will not

be able to produce all fuels according to European quality requirements.
Therefore INA's making efforts to speed up this project. During 2005 all relevant decisions were passed and approved by the Supervisory Board. The first phase started at the end of 2005 with the contract concluded for the delivery of a sulphur recovery unit for the Sisak refinery. Preparation of tender documentation and contracting procedure continues in 2006.
INA's Retail Services Division manages the network of 415 petrol stations in Croatia and 42 petrol stations in neighbouring countries.
In 2005 INA sold through its retail network 1.1 million tonnes of derivatives. Two new petrol stations were opened during the year and three were reconstructed in accordance with the new visual design adopted at the beginning of 2005. Various activities were undertaken with the aim of increasing the throughput and quality of our services.

On a corporate level we have initiated several projects that will contribute to the enhanced competitiveness of the company. In August 2005 the SAP project was launched. The design phase was completed by the end of the year and the project is developing in line with the schedule. It will help in achieving a higher level of transparency and greater efficiency in all businesses.
The other project was named OPTINA, referring to the optimisation of businesses in all INA's segments.
It is focused on cost cutting measures which can be implemented rather quickly with no investments, but which can ensure considerable savings in the such areas as maintenance, warehouse operations, procurement, etc.

We are working together on these projects with our partner, MOL. Our cooperation is developing well in a number of activities.
Our E&P experts are carrying out joint exploration operations in the gas prospective area Podravska Slatina - Zalata, on the Croatian - Hungarian border. Other opportunities are considered in upstream and gas business.
We have the full support of our partner in the execution of the refinery modernisation project. The exchange of experience and the transfer of knowledge in industry best practices have been very beneficial.

In line with our efforts to put in place a comprehensive quality management system, that will ultimately ensure the high quality of our products and services, INA introduced corporate quality management system. The independent audit was performed by the end of 2005 and in January 2006 INA obtained ISO 9001:2000 certificate.
We value highly the skills and expertise of our employees. In order to foster knowledge sharing a company knowledge data base was created in 2005. It comprises of our employees' inventions, technical improvements, proposals for rationalizations, published articles and papers presented at conferences, etc.

In all our business operations we continue to pay great attention to environmental protection and the health and safety of our people. We are glad to report that in the last few years the number of accidents causing damage to the environment has been decreasing.
It is also the result of the preventive measures that have been undertaken, as for example the replacement of old pipes and the optimization of oil gathering systems on the production fields in the last two years. The number of injuries also decreased. In 2005 there were 12% less injuries than in 2004.
The lost time injury frequency also improved by 20%. We will endeavour to maintain these positive trends.

As a socially responsible company INA is contributing to the community by promoting and sponsoring projects in the field of science, culture, healthcare and sports. We cooperate with the communities in which we operate and with a number of non-government organisations. INA publishes a separate corporate social responsibility report prepared in accordance with Global Reporting Initiative (GRI) guidelines.
As a responsible employer INA promotes the education of its employees and care for their professional development.
The success of INA and good operational results were achieved thanks to the commitment of our employees. Without such a commitment we could not realise the ambitious development plans set in our strategy.

Dr. Tomislav Dragičević

Vision

INA's vision is to be a reputable and desirable partner that is known for its excellent products and services. INA builds on honesty, fair dealing and protecting the interests of its customers, partners and employees, combined with a focus on creating value for its shareholders.

Mission

INA is a vertically integrated oil corporation that plays a major role in oil, oil derivatives and gas markets in southeastern Europe. INA is committed to continuously improving its businesses and increasing the efficiency and quality of its products and services.

Core values

In order to achieve its vision and realize its mission, INA must adjust its behavior to the expectations and goals of its stakeholders - customers, shareholders, employees and the community - while taking into account the need to protect the environment and maintain a balance in nature. Hence, INA's core values are:

Benefits for the Owner
Achieving the profitability and value creation its shareholders and investors expect

Partnership with Customers
Fulfilling its customers' interests and expectations and obtaining their loyalty and long-term commitment

Respect for Local Heritage - Our Recognizable 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 - Integrity
Recognizing employees' needs, interests and abilities through an incentive-based system for salaries and promotions, as the employees are an indispensable creative potential and form the overall support and foundation for realizing INA's corporate goals

HSE Commitment
Protecting the environment and ensuring the health and safety of its employees and the community at large

At the end of the year INA d.d., the parent company, employeed10,290 people, while INA Group total headcount was 15,989.

The knowledge and skills of INA's people are a valuable asset which must be further developed and adjusted to the needs of business development strategy. Therefore, during 2005 INA continued to work toward efficient and continuous education of its employees in order to upgrade the level of competencies and quality of knowledge and skills through various educational and training programmes. In total 11,074 employees were included in one or more training programmes. Most of the educational programmes were realised in Croatia but also some executive training and specialised courses were attended abroad. Within the scope of quality management system the implementation of various training courses was organised for 1,743 employees, mainly in-house training related to quality standards such as ISO 9001, ISO 14001 and OHSAS 18001. The IT training contracted with the European Computer Driving Licence (ECDL) continues and 1,501 employees have so far been included in this training programme. A number of employees also attended foreign language courses (mainly English).

INA is also promoting work-and-study schemes enabling its employees to complete their graduate or postgraduate studies and achieve higher qualification level. During 2005 such programmes encompassed 301 employees. In addition, a number of managers attended MBA courses or post-graduate studies at universities in Croatia or abroad.

Specialised training courses were organized for 2,511 employees (mainly with the Croatian Institute for Toxicology) with the aim that they acquire necessary certificates required by law.

INA tends to open the door to young people. During 2005 more than 1,100 secondary and university students were able to have their work practice at INA.

In 2005 INA commenced the implementation of SAP project. The HR Sector is actively involved in the project and its team works on implementation of the processes within the scope of SAP projects that are in compliance with HR management best practices.

During 2005 INA worked intensively on business process mapping. The mapping and modelling of our business processes was the first step in introducing organisational changes based on process oriented principals. The objective is to redefine organizational structure so as to have less hierarchical levels and greater delegation of responsibilities. It will result in more flexibility and adaptability to the challenges of an ever changing business environment and is in line with the current trends in organisation modelling theories.

Health, safety and environmental protection are permanent concerns and a high priority in INA's operations and development projects. HSE activities are organised in the organisational unit on corporate level, the HSE Sector, which is responsible for designing the strategy and setting objectives, monitoring of all activities in this area, communication and coordination with the Management Board and HSE departments in business divisions as well as communications with the stakeholders.
All organisational units whose operations have, or may have an impact on the health and safety of people or the environment, have been duly ISO 14001 certified.

Most of the environmental projects initiated in 2001 and financed by the European Bank for Reconstruction and Development (EBRD) were finished in 2005 or are close to completion.
In the Maziva Rijeka lubricants plant a new waste water treatment unit was installed which significantly improved the quality of waste water and discharges into the sea in the Kvarner bay. The reconstruction of tanks and loading units for bitumen has contributed to reducing evaporation and improved conditions of the working environment, but also lower emissions in the surrounding area.

In the Sisak refinery the reconstruction of the unifying unit within HDS has been completed, as well as the reconstruction of the oily water separator, reconstruction of the water supply system and construction of units for off-loading non-complying fuels from truck tankers for storage in separate tanks. Various measures have been undertaken with the aim of decreasing emissions/imissions of H_2S from the refinery and for their continuous monitoring.

At the Solin terminal on the Adriatic coast, operated by INA's Logistics Department, connecting pipelines were reconstructed as well as a storage tank bottom in order to prevent any leakage. Installation of floating membrane in the gasoline tank is in progress.

The unit for the injection of process waste into deep wells has been put into operation in the Upstream Division. The upgrading of the LO-CAT unit at the gas treatment plant Molve III was completed. It will reduce the water content in the slurry and enable the recovery of sulphur in a new sulphur recovery unit. This upgrading will contribute to the reduction of waste and H_2S emissions.

By the end of 2005 INA signed the contract for the supply of the sulphur recovery unit to be constructed in the Sisak refinery. This project is the first step in the modernisation of INA's refineries. It will significantly reduce emissions of sulphur compounds.

In the last few years the number of accidents causing damage to the environment has been decreasing. Most accidents with an impact on the environment were recorded in the Upstream Division. They were connected with pipeline leakage due to corrosion, mechanical damage and other. Although the length of gathering and dispatch pipelines in the Upstream Production Sector is considerable, over 3,000 km, the number of accidents decreased as a result of significant investments in the replacement of old pipes and the optimization of oil gathering systems on the production fields in the last two years.

Occupational safety and health of our employees are high priorities and make part of INA's business strategy. The Occupational Safety Committee, whose members are also occupational medicine doctors, prepares plan of activities, monitors implementation of health and safety measures and carries out various analyses. It contributes in achieving a healthy environment and safe working processes in our company. Medical examinations and preventive care programmes are organized through contract health institutions, including rehabilitation treatments in special hospitals. In addition, regular medical check-ups are organised for employees working in specific conditions.

The number of injuries continues to decrease: in 2005 there were 12% less injuries than in 2004. The lost time injury frequency was also improved by 20%. These good results could be attributed to preventive measures and continuous training in occupational safety and fire safety. A number of fire-fighting exercises were organised in different organisational units of INA.

Each year the Management Board of INA passes the decision on a special programme of activities in May - The Month of Fire Protection. The programme comprises different informative, training, preventive and technical activities aimed at improving fire protection and prevention.

INA is paying a lot of attention to communication concerning HSE issues with all stakeholders, from our customers to local communities and government institutions. Also, we are constantly working toward achieving a high level of awareness of our people about the importance of health and safety measures and environmental protection.

INA followed international trends in development and implementation of quality control and quality assurance systems and at later stage quality management on corporate level. The business processes related to production and marketing of products and services were ISO 9001 certified in the 1990s.

Changes in business environment, as well as those within the company, called for respective changes in quality management system. INA has continuously worked on the improvement of its business processes, overall efficiency and quality of its products. In 2005, the Management Board of INA adopted the resolution on certification of INA on a corporate level, based on the integrated quality management system. The audit of the management system was performed by the end of 2005 and in January 2006 INA obtained ISO 9001:2000 for the entire company.

During 2005 Quality Management Sector worked intensively on business processes mapping. The model of INA's processes has been designed in Aris and is available on the Intranet. It enables easy access and review of business processes as well as their analyses. Thus, INA has also complied with quality management corporate rules and requirements set by ISO 9001 standard.
With the aim of ensuring continuous improvements of INA's products and services, to the satisfaction of all our stakeholders, particularly our customers, INA launched on the market in January 2006 new grades of gasoline and diesel. Also, new quality standards were issued that set INA standards for unleaded motor gasoline and diesel fuels. New quality diesel and gasoline comply with the EU specification regarding sulphur content (50 ppm), effective by 2009. On the same date the only leaded type of gasoline was withdrawn from the market and was replaced with the unleaded, SUPER PLUS 98.

Intellectual property protection

INA has set up and continually improves the intellectual property management system. Protection of intellectual property is carried out in the markets where INA has been present or intends to be present, in compliance with the intellectual property management strategy pursued in Croatia and abroad.

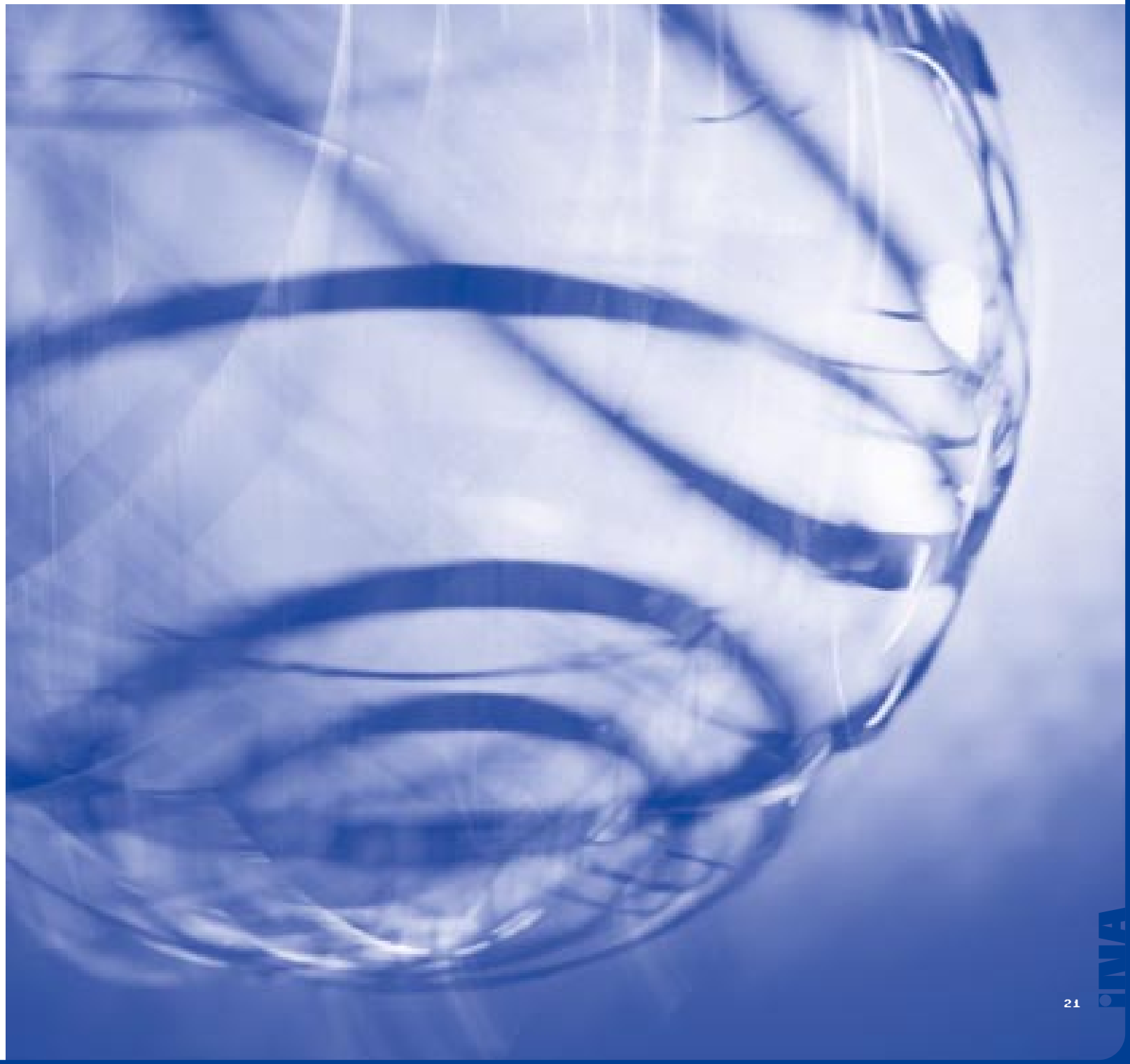
In 2005 INA created a company knowledge data base which comprises INA's employees' inventions, technical improvements, proposals for rationalisation and copyrights (articles published in magazines or books, papers presented at conferences, dissertations etc.).
Thus we have enabled access to tacit knowledge and its sharing among our employees. INA has always promoted and rewarded inventions. Our inventors participated at the innovation exhibition, INOVA 2005, and received gold, silver and bronze medals for individual and group innovations. The International Patent Institution Eric Hanscom awarded to INA a Certificate of Accomplishment in recognition of its valuable contributions to the furtherance of inventions throughout the world.

Our success is not measured by our financial performance only. It is also reflected in our ability to meet the expectations of all INA's stakeholders in the area of corporate social responsibility and environmental protection. With ethical conduct of our businesses we gain the trust of our stakeholders and wider community.
For more than 40 years INA has been supplying fuels and other oil products to the citizens and legal entities of Croatia and neighbouring countries. Our production facilities, terminals and retail sites are located in every corner of the country and thus INA is involved in the life of local communities. It became a tradition that INA provided support to municipalities in financing roads, pipelines and other infrastructural facilities, particularly in the areas were oil and gas exploration and production was carried out. In the 1980s INA participated in the funding of various construction projects including schools, hospitals, holiday homes for its employees and other. This concept was abandoned as INA commenced its restructuring and focusing on its core activities.

INA is still very active in providing support to a range of social activities in the area of culture, sports, humanitarian projects, health care and environmental protection. In the recent years INA has been publishing a public competition seeking suitable candidates for supporting individual projects by donation or sponsorship in the fields of culture, science and education, sports, ecology and other. Thus INA helped in the realisation of a number of projects that could hardly have been developed without the aid of sponsors.

INA is always tending to establish good relations with its suppliers of crude oil, natural gas and equipment and materials. In our vision statement we set as our priority objective to be a recognized and desirable partner.
INA is one of the largest employers in Croatia. At the end of 2005 INA d.d., the parent company, employed 10,290 people. Our goal is to recruit competent and skilful employees and to offer them an opportunity for further career development.
Workers' rights and obligations are regulated on the basis of a collective agreement, labour regulations and other company regulations. The three trade unions active in INA represent the workers in negotiating collective agreement terms with the management.

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



Exploration operations

Summary

In 2005 the main exploration and development efforts were focused on INA's interests abroad.
The most important project was the third phase of exploration operations on the Hayan block in Syria which included the testing of appraisal wells on the three discovered fields: the Jihar field where oil, gas and condensate were discovered, the gas-condensate field Al Mahr and the gas field Palmyra.
Oil exploitation began on the Jihar 2 well from C2 deposit.
In Syria the operations on the Aphamia block included the testing of the Mudawara-1 well and the acquisition of 2D seismic.
In Egypt, exploration works on three blocks included the evaluation of prospects and their preparation for exploratory drilling.
A new country is included in INA's exploration portfolio: by the end of 2005 INA signed an agreement for exploration rights on the Zaris block in Namibia.
Exploration activities in Croatia were mainly focused on the blocks in the Adriatic such as Aiza Laura and Izabela, Iris/Iva. The appraisal well Izabela-2 confirmed the discovery of a gas field and new gas prospects.

Pannonian basin

Activities in the highly explored northern regions of Croatia comprised only minor projects.
Geological studies were prepared for exploration wells Rakitnica-1, Selec-1 and Novo Virje-1.
Within the scope of a joint project with MOL in the border area Podravska Slatina - Zalata, a geological project was completed for the Zalata-1 well.
Previous exploration activities on the Velika Plana location resulted in gas discovery.
The Study on discovered gas reserves on the Velika Plana area was prepared and handed over to field development.

During 2005 E&P performed a review of the existing exploration wells. The following wells were re-tested unsuccesfully: Subotica-2 and Staro Petrovo Selo-1.

North Adriatic

Exploration and development operations in the North Adriatic have been carried out as joint ventures with foreign partners. The Ivana and Aiza Laura blocks have been explored and developed jointly with ENI from Italy. Edison Gas, Italy completed exploration on the Izabela block and a new agreement was signed for the exploration of the new Ivona block.

Aiza Laura Block

(INAgip operator - 50% interest)
ENI requested an extension of the exploration phase until June 2005 due to gas discovery on the Irma prospect. A detailed economic evaluation and appraisal of gas quantity followed, on the basis of which decisions should be made concerning the development of this prospect.

Ivana Block

(INAgip operator - 50% interest)
The geological project was prepared for the Ana-1 exploration well which is 7.3 km to the south of the production platform Ivana A and 4 km to the east of the production platform Ivana B. The well should confirm gas deposits in Pleistocene Carrola formation.
Exploration commenced on 27 December 2005 by the drilling contractor Crosco (INA's subsidiary). The foreseen depth is 1240m.
After appraisal of the exploration data from the Ana well, decisions will be made whether to drill the Vesna-1 well on the same block.

Izabela Block

(EDINA operator - 50% interest)
EDINA, a joint venture Edison Gas, Italy and INA, as operator contracted 3D seismic on 300 km.
Interpretation of seismic data was performed by INA's E&P Division.
Based on the interpretation results the location of Izabela-2 well was determined as well as the Irena-1 and Irena-2 wells on the northern part of the block. The task of the Izabela-2 well was to confirm gas deposits in the Ravena and Carola formations which were discovered by the Izabela-1 well. All works were performed in accordance with the schedule. The final depth of Izabela-2 was 930 m.
The maximum detected gas flow was 178,968 cm/day.
The development of the well will commence in 2006.
All exploration costs are borne by Edison Gas in line with the Production Sharing Agreement.

SYRIA

Hayan block
(INA operator - 100% share)
In addition to the notice of discovery of commercial reserves of gas, condensate and oil on the Jihar field, in March 2005 INA submitted to the Syrian Oil Ministry and Syrian Petroleum Company (SPC) the "Notice of commercial discovery and proposed development plan for the Palmyra field and Al Mahr field" on the Hayan block. In order to proceed with the development of the three fields and production of gas and condensate, on 29 August 2005 INA signed the Gas Sales Agreement with the Syrian Gas Company and Syrian Petroleum Company.

Palmyra-3
Production tests were carried out on the Palmyra-3 deep well. Maximum gas flow into the well was 240,037 cm/day.

Jihar-1
Production tests were carried out on the Jihar-1 well. Maximum flow of gas was 390,000 cm/day and condensate 210 cm/day, but no oil reserves were detected although after the discovery of oil on the Jihar 2 well it was expected that oil deposit might be struck.

Jihar-4
Testing of appraisal well Jihar-4 was carried out between February and April 2005. Tested intervals included the Amanus Sand formation (4095-4086m), D2 (3850-3796m) and lower and medium C2 (3445-3382m) in the Kurachine Dolomite formation, however with no commercial hydrocarbon reserves.

Jihar-6ST
Drilling of the deep exploration/development well Jihar-6ST was completed. The total depth is 4400 m. The purpose of drilling this well was to explore possible oil and gas deposits in deeper reservoirs. The existence of reserves was proved during drilling. Workover operations are scheduled for 2006 and should provide more precise data on the production capacity of this well.

Al Mahr-2
Workover operations on the Al Mahr-2 well confirmed commercial reserves of gas and condensate. Maximum flow of gas was 210,000 cm/day and about 30 cm/day of condensate.

Al Mahr-1
The exploration well Al Mahr-1 recorded similar results as Al Mahr-2 and definitely confirmed commercial reserves of gas and condensate on the Al Mahr field.

In addition to the three fields with commercial discovery of hydrocarbons, INA decided to continue exploration activities on the prospects Jazal and Khnifes also on the Hayan block. Seismic surveys (2D and 3D) were carried out during 2004 and 2005. On the basis of the results obtained by interpretation of the seismic data it was decided that the well Khnifes-1 be drilled.

Khnifes-1
The drilling of the deep exploration well Khnifes-1 started in 2005 and continues in 2006. On 31 December 2005 the depth was 2367 m (Amanus Shale/Amanus Sand formation).

Aphamia Block
(INA operator - 100%)
Currently INA is in the first phase of exploration operations on the Aphamia Block covered by the agreement which includes 500 km of 2D seismic and the drilling of two exploration wells. INA announced tendering for 2D surveys and the contract was assigned to Geofizika, Zagreb. Surveys began in December 2005. INA reprocessed 28 seismic lines covering a total surface of 1093 km which were taken by the previous concessionaires.
Interesting intervals of the existing Mudawara-1 well were tested. Maximum flow of gas was 215,000 cm/day and about 20 cm/day of oil. However, in addition to hydrocarbons, there was a significant presence of H_2S. The appraisal well planned to be drilled in 2006 would provide more data about potential reserves in other deposits and economics of the project.

EGYPT

Exploration activities in Egypt were carried out on the three exploration blocks: East Yidma, East Kalabsha and Ras El Ush.

East Yidma Block - West Desert
(Operator INA - 50% share)
The first contract phase includes 150 km of 2D seismic (previously surveyed 465 km) and drilling of two exploration wells together with our partner RWE-Dea. During 2005 efforts were concentrated on geologic appraisal of the block and definition of the most prospective locations. Two prospects were highly ranked for the drilling of two wells: Drazia-1 and Sidi Rahman-1. The drilling is expected to start, respectively, in January and March 2006.

Ras El Ush Block - Suez Bay
(Operator IEOC - 25% share)
The operator and INA completed the contract obligations for the first exploration phase which included 2D and/or 3D seismic and drilling of one exploration well. The well was drilled in 2004 (Ghanim-1) and was unsuccessful.
In 2005 additional 2D surveys were performed on 92 km. At the Technical Committee meeting held in June 2005 the partners decided to proceed with the second exploration phase which includes the drilling of one exploration well.

East Kalabsha Block - West Desert
Operator: IEOC - 25% share)
The first exploration phase began in May 2005 with the duration of 3 years. Contract obligations in this first phase include 2D and/or 3D surveys and the drilling of three exploration wells. After signing of the Agreement, the operator prepared a feasibility study for the block and on the basis of the study a detailed programme of geophysical and geological works was proposed for the first phase.

NAMIBIA

Block Zaris
(Operator INA - 100% share)
During the reconnaissance phase of the project aerogravimetric and magnetometric surveys were carried out on the surface of 67,000 square km. The surveys were performed on two separate blocks, the north Zaris block of 45,088 square km and the Witput block to the south on 21,900 square km and a 286-km long line connecting these two blocks. After analyses of reconnaissance data, INA prepared a feasibility study. In November 2005 an Oil Agreement was signed with the Namibian Ministry of Oil for exploration on the Zaris block. INA's obligation includes 2D surveys on about 500 km. Upon interpretation of the obtained data decisions will be made concerning further exploration activities.

INVESTMENTS IN EXPLORATION AND DEVELOPEMENT IN 2005

	Total in 2005		In Croatia		Abroad	
Description	**HRK mil.**	**USD mil.**	**HRK mil.**	**USD mil.**	**HRK mil.**	**USD mil.**
Exploration operations	252.33	42.42	5.89	0.99	246.44	41.43
Development operations	745.77	125.38	636.23	106.97	109.54	18.42
TOTAL INVESTMENTS	**998.10**	**167.80**	**642.12**	**107.96**	**355.98**	**59.85**

Exchange rate USD - HRK = 5.948

Investments in exploration and development USD / BOE USD mil.

In 2005 INA invested in exploration operations USD 42.42 million of which most of the investments were earmarked for exploration activities abroad (USD 41.43 million). The exploration efforts resulted in the discovery of additional volumes of oil, gas and condensate on the deeper reservoirs of the Jihar field on the Hayan block in Syria. The newly discovered reserves are appraised at 20,600,000 m^3 of oil equivalent.

INVESTMENTS IN EXPLORATION AND DEVELOPEMENT IN 2005

			Index
Investments USD/boe	**2004**	**2005**	**2004/2005**
Exploration operations	4.62	2.10	45
Development operations	5.54	6.20	112
TOTAL INVESTMENTS	**10.16**	**8.30**	**82**

Exchange rate USD - HRK = 5.948

PANNONIAN BASIN

During 2005 the development operations on the oil and gas fields in the Pannonian basin involved planning and designing of mining operations aimed at alleviating a natural decline in production, increasing hydrocarbon output or speeding up recovery rate. Five new development wells were drilled which comprised of 1 gas well (Kal-3R2) and 4 oil wells (Biz-9RH, Ob-10R, Lip-177, Kz-40) while the drilling of Mol-42 has been started.
The studies were completed for 11 oil and gas fields and were submitted to the Energy Department of the Ministry of Economy, Labour and Entrepreneurship for approval.
The Ministry granted licences for the continuation of production from these fields.

Reserves have been confirmed on the Vrbak gas field and on the geothermal field Lunjkovec—Kutnjak.

In December 2005, the consulting company Ryder Scott from Houston finalised the EOR study for CO_2 injection at oil fields Ivanić Grad and Žutica. The study confirmed economic feasibility of the EOR project. According to a very conservative approach presented by Ryder Scott, CO_2 injection at Ivanić and Žutica should enable additional recovery of 2.35 MMcm of oil; however, the results of numerical simulation tuned to field data obtained by CO_2 pilot injection indicate that additional recovery could be up to 5.68 MMcm of oil over the 25 years of the project.

The preparation of a feasibility study for the Beničanci field is in progress. INA's experts worked on the selection of the most appropriate location for a pilot project - CO_2 injection in the top of Beničanci structure (similar to previous pilot project on the Ivanić field) in order to test the efficiency of the EOR method in reservoir conditions.

The studies for the 3 EOR projects have been financed by the Trade and Development Agency of the US Government.

PROJECT MEĐIMURJE

The Međimurje project targets the development of three new natural gas fields (the Vukanovec, Vučkovec and Zebanec fields) in the Međimurje region in the north of the country. The foreseen production could start in 2008. Estimated production volumes for the period 2008 - 2018 are 1.1BCM of gas and 1.5 BCM of carbon dioxide.
The recent acquisition of 160.31 km^2 of 3D seismic in the Međimurje region was aimed to confirm the presence of additional potential gas reserves on the Nedelišće and Peklenica prospects.

THE ADRIATIC OFFSHORE

Intensive activities undertaken within the scope of the North Adriatic project, the largest development project in Croatia, aimed at the completion of development operations and start-up of production from the two new gas fields - Ida and Ika. They included the drilling and completion of 6 development wells on the Ida field and 5 development wells on the Ika field. The installation of 5 production platforms (IDA A, B and C, and Ika A and B) is completed, as well as the installation of export and intrafield pipelines. Following the final check and testing, test production from these fields is expected at the beginning of 2006.

One development well was drilled and completed on the Ivana gas field (Ivana C - 1DIR), and the installation of a production platform is in progress. The start-up of production is expected by mid-2006.
The development of the Annamaria field, straddling the median line between the Republic of Croatia and Italy, is expected in the course of 2008, and start-up of production is scheduled in 2009. Preparation of a feasibility study is in progress, which reviews the current development plan and drilling of 6 development wells on the Croatian and Italian side each in the first phase, and the drilling of two additional wells on each side depending on production results of the first phase.
Intensive development activities were carried out on the new Katarina gas field in the Aiza-Laura contract area. A production platform jacket was installed and operations on drilling of 3 development wells can commence at the beginning of 2006. Works on the construction of a process deck on the Katarina platform have also begun.
The installation of the Ivana K platform for compression and dehydration of gas was completed within the scope of the construction of common facilities. It will become operational in the first quarter of 2006. Works have also begun on laying of the pipeline from Ivana K to the shore, where it will be connected with the pipeline from Pula to Karlovac.

ANGOLA

The concession in Angola comprises 4 contract blocks: Block 3/80, Block 3/85, Block 3/91 and the new Block 3/05. INA's share ranges from 4 to 5% depending on individual contract for each block.
Works on the largest Block 3/80 diminished during 2005 due to the expiry of the licence in the middle of the year. Instead of Total the operatorship on this block was overtaken by the national oil company Sonangol. The block was renamed to 3/05. INA has signed a new Production Sharing Agreement (PSA) and acquired production rights until 2025.
INA's share for this block was modified and it is now 4%. The licence for one production field from the block 3/80 has remained in effect until the middle of 2006 when it will expire.
INA has a production licence for the other two blocks in Angola (3/85 and 3/91) together with other partners in the consortium, with 5% share. The company Total remained the operator on the above two blocks. Licences for these two blocks expire in 2011/2012.
During 2005 there was no development drilling on the entire Block 3 but only minor workover operations and repair or replacement of subsea pipelines.

EGYPT

During 2005 intensive development operations were carried out on the two concessions in Egypt. On the West Abu Gharadig (Western Desert) block there are two oil fields: Zarif and El Faras. On the Ras Qattara block (Western Desert) there are also two oil fields: Raml and Raml SW. On both concessions INA's share is 25% and the operator is IEOC.

Instead of 5 wells as was originally planned, due to high crude oil prices and fast return on investments, 12 development wells were drilled during 2005.

On the North Bahariya concession there are four oil fields: Abrar, Ferdaus, Ganna and Rawda. There is one production well on each field. INA's share is 20%, the operator is Sipetrol, a Chilean company. The exploration drilling planned for 2005 was not realized due to a shortage of drilling equipment in the Egyptian oil prospective areas.

SYRIA

On the blocks in Syria INA is operator and has 100% share.
During 2005 the Jihar-2 well was put on stream and oil production began in August. Drilling of the exploration - development well Jihar-6 was completed and workover operations are in progress. Development plans were prepared for the Palmyra and Al Mahr fields.

OIL AND GAS RESERVES IN CROATIA As of 31 December 2005	Unit	Proved	Proved + probable	Proved + probable + possible
Oil	10^3 m^3	7,079	12,998	16,336
Condensate	10^3 m^3	2,940	2,984	2,984
Total (oil+condensate)	10^3 m^3	10,019	15,982	19,320
Gas	10^3 m^3	29,789	34,482	34,782
OE	10^3 m^3	39,807	50,464	54,102

Audited by PGL Engineering Geoscience, independent petroleum consultants

OIL AND GAS RESERVES ABROAD As of 31 December 2005	Unit	Proved	Proved + probable	Proved + probable + possible
Oil	10^3 m^3	1.070	2.065	2.065
Gas	10^3 m^3		10.374	10.374
Condensate	10^3 m^3		1.319	1.319
OE	10^3 m^3	1.070	13.758	13.758

Audited by PGL Engineering Geoscience, independent petroleum consultants

TOTAL OIL AND GAS RESERVES As of 31 December 2005	Unit	Proved	Proved + probable	Proved + probable + possible
Oil	10^3 m^3	8.149	15.064	18.401
Gas	10^3 m^3	29.789	44.856	45.156
Condensate	10^3 m^3	2.940	4.303	4.303
OE	10^3 m^3	40.877	64.222	67.860

OIL AND GAS RESERVES IN CROATIA (in bbl) As of 31 December 2005	Unit	Proved	Proved + probable	Proved + probable + possible
Oil	10^3 bbl	44.522	81.751	102.741
Condensate	10^3 bbl	18.488	18.765	18.765
Total (oil+condensate)	10^3 bbl	63.010	100.516	121.506
Gas	10^3 bbl	187.349	216.868	218.755
OE	10^3 bbl	250.359	317.384	340.261

Audited by PGL Engineering Geoscience, independent petroleum consultants

OIL AND GAS RESERVES ABROAD (in bbl) As of 31 December 2005	Unit	Proved	Proved + probable	Proved + probable + possible
Oil	10^3 bbl	6.726	12.990	12.990
Gas	10^3 bbl		65.245	65.245
Condensate	10^3 bbl		8.295	8.295
OE	10^3 bbl	6.726	86.530	86.530

Audited by PGL Engineering Geoscience, independent petroleum consultants

TOTAL OIL AND GAS RESERVES (in bbl) As of 31 December 2005	Unit	Proved	Proved + probable	Proved + probable + possible
Oil	10^3 bbl	51.248	94.741	115.731
Gas	10^3 bbl	187.349	282.113	284.000
Condensate	10^3 bbl	18.488	27.060	27.060
OE	10^3 bbl	257.086	403.086	426.791

In 2005 INA produced 1.13 million tones of oil and condensate, comprising:
In **Croatia** 630,348 tonnes of oil and 315,614 tonnes of condensate
In **Angola** 76,812 tonnes of oil
In **Egypt** 104,064 tonnes of oil
In **Syria** 7,106 tonnes of oil
In Croatia oil was produced from 785 wells on 36 oil fields. From 15 fields oil is recovered by natural flow (only 5 % of total producing wells) and it accounts for 12 % of the produced oil, while the remaining wells employ artificial lift: 41% gas lift and 47% pumping. In addition to oil, 2.5 million of water was extracted from the reservoirs.
The water was separated, treated and reinjected into reservoirs or used for injection into the wells so as to enhance oil recovery.
In August 2005 oil production commenced from the Jihar-2 well in Syria.

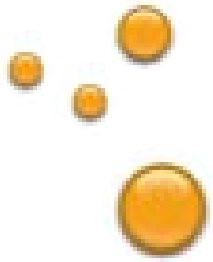
The pilot project on the Ivanić oil field included the second cycle of CO_2 and water injection within the scope of Enhanced Oil Recovery (EOR) project: about 15,300 t of liquefied CO_2 was injected into the well Iva-28 and as a result the production wells Iva-11 and Iva-19 produced oil by natural flow and mechanical lifting, depending on reservoir pressure.

In order to achieve planned production levels on the older fields, various workover operations were carried out during the year. The operations included 33 capital workover operations including hydraulic fracturing and gravel pack, 307 regular workover operations and 43 well equipment overhauls. For this purpose INA invested over HRK 140 million. The implementation of workover operations resulted in increased production of oil by 7,950 t, 28.5 million cm of gas and 3,950 t of condensate.

The underground gas storage Okoli operated in the 17th and 18th production cycle and the 18th injection cycle. In 2005 total production from the storage was 365,384,690 cm of gas, while 422,727,306 cm of gas was injected.

The Ethane Plant in Ivanić Grad produced 108,200 t of LPG and virgin naphtha and 66,126t of ethane.

In 2005 INA produced 0.3 million cm of geothermal water and 2.2 million cm of fresh water.



BUSINESS ACTIVITIES
SUMMARY - OIL AND GAS PRODUCTION IN 2005

Within the scope of constant care for safety and environmental protection, after detailed survey of the trunk pipeline from the dispatch station Stružec to the Sisak refinery, the replacement of critical pipeline sections followed and a new leakage detection system was put in place on all important points of oil and condensate dispatch systems.

On the dispatch systems in Beničanci and Vinkovci a new monitoring system was installed for the control of crude oil dispatch from the dispatch station Beničanci and measuring - dispatch station Ćeletovci through the pipeline to the loading station Ruščica.

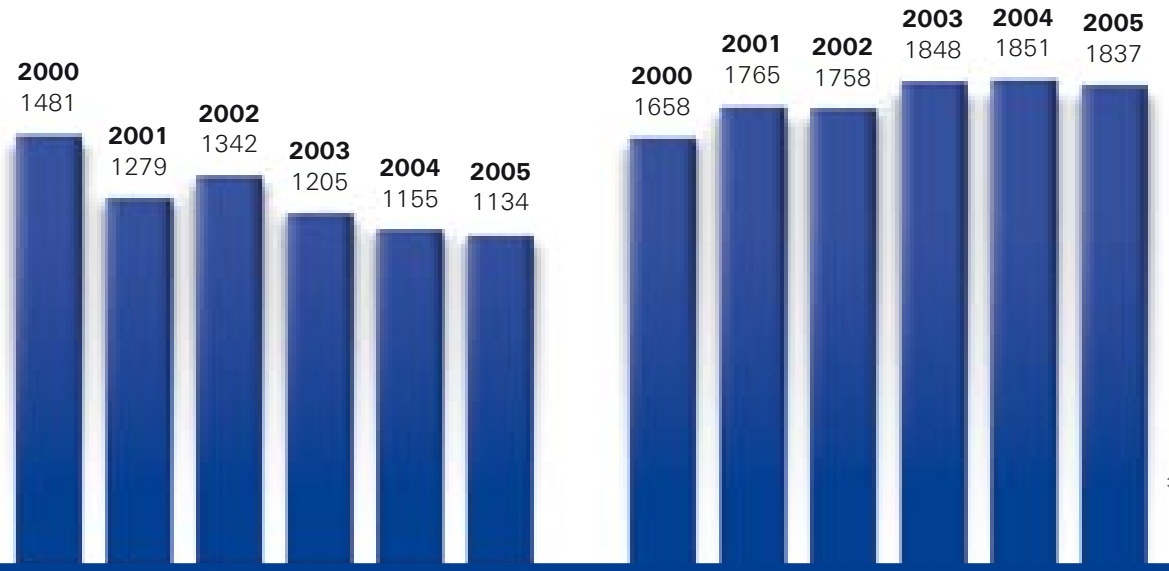
During regular overhaul of the Gas Treatment Plant Molve, the new regenerative-thermal oxidation unit was connected with the LO-CAT absorber. Also, a new stack was constructed for the removal of treated flu gases into the atmosphere. With this project completed, INA finished the second phase of H_2S/RSH emission reduction project on the GTP Molve plant.

Crude oil and condensate production from 2000 - 2005 (in 000 tonnes)

The total natural gas production was 1.84 billion cm to which the Ivana and Marica offshore fields contributed with 445 million cm. The gas field Marica was put on stream in early 2005 when the trial operation was completed.

Crude oil and condensate production from 2000 - 2005 (in 000 tonnes)

The total natural gas production was 1.84 billion cm to which the Ivana and Marica offshore fields contributed with 445 million cm. The gas field Marica was put on stream in early 2005 when the trial operation was completed.

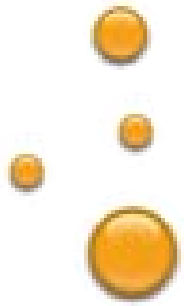


INA's natural gas business is organised between the Production Sector of the E&P Division (comprising production facilities, gas treatment plants, the ethane plant and underground gas storage) and the Commercial Sector which is responsible for the import of natural gas and its transportation to the Croatian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

Natural gas supply

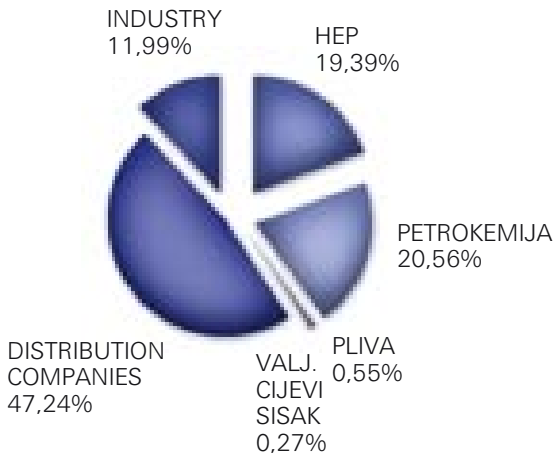
Production of natural gas from domestic reserves (onshore and offshore) currently meets about 60% of total Croatian gas demand, with the remainder imported from Russia.
In 2005 INA imported 1.1 billion cm of gas from Russia, in accordance with planned volumes. During the summer months Gazexport announced decrease in delivery volumes due to pipeline reconstruction in Ukraine. In order to ensure sufficient volumes of gas to be injected into INA's underground gas storage in the period of May to September 2005, INA imported an additional 34 million cm of gas from the Austrian company Econgas.

During 2005 INA signed a new longterm agreement with Gazexport, Moscow for the supply of natural gas by 2010. Also, in December 2005 we signed a new contract with SPP, Slovakia for transportation of 1.2 billion cm of gas by the year 2010.
Commercial Sector sold 1.639 billion cm of gas from domestic onshore and offshore fields.
The share of natural gas produced on the Adriatic offshore fields is growing.
Ina is in negotiations with its strategic partner MOL concerning the opening of a new natural gas import route through Hungary.
It is important to ensure additional volumes of gas for the Croatian market in order to meet growing demand.



Wholesale of natural gas

In 2005 INA sold to the eligible and tariff customers 2.69 billion cm of gas. The structure of customers and their share in the market is presented below:



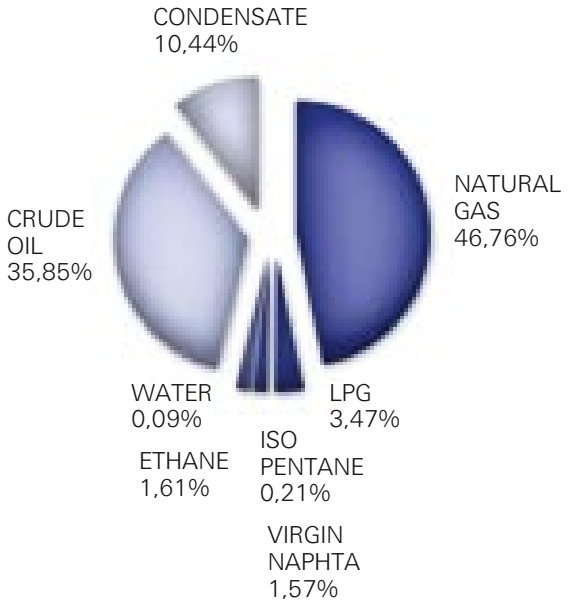
In 2005 INA agreed with the eligible customer HEP that the contracted volume of 700 million cm be decreased to slightly over 500 million cm to enable INA to inject more gas into the storage and ensure sufficient volumes for the heating season 2005/2006.

During the year INA submitted proposals to the Croatian regulatory agency requesting increase of gas price for tariff customers so as to mitigate high disparity between the high price of imported gas and the sale price in the Croatian market, however, such an increase has not been approved.

The activities initiated in 2004, concerning amendment of the existing tariff system methodology for gas supply, continued in 2005. The intention is to design the system according to which the wholesale gas price would reflect the energy value of alternative fuels in the Mediterranean market.
The proposed methodology takes into account the purchasing price of domestically produced gas which should reflect the market price and its movement. The application of such a methodology in setting prices for tariff customers would enable the removal of the huge disparity between import and domestic gas prices.

In 2005 E&P Division generated gas sales revenue to the amount of HRK 2.4 billion and it accounts for 47% of the total sales revenues of this division. Total sales revenues of E&P division amounted to HRK 5.2 billion which is 16% higher than in previous year.

Structure of E&P sales



BUSINESS ACTIVITIES
REFINING AND WHOLESALE

In 2005 INA's refining activities were marked by minor revamps and the preparation of the processing units for the production of fuels according to European quality specification IV requirements. At the beginning of 2006 INA launched its motor gasoline Euro Super and Euro diesel with a 50 ppm sulphur content to the Croatian market.

Refining margins were lower than in previous year, while crude oil prices on the international market continued to increase throughout 2005, (averaging a 42% increase compared to 2004) while product prices in the Croatian market grew by only 26%.

Lower refining margins were partly offset by improved efficiency in crude oil procurement, supply chain management and improved hydrocarbon stock management.

In 2005, INA's refineries processed 4.9 million tonnes of imported and domestically produced crude oil. Including the lubricants plant, Maziva Rijeka, INA processed a total of 5.2 million tonnes of crude oil and feedstock, which is 226,000 tonnes less than in 2004. The reason was major maintenance overhaul at the Sisak refinery during April and part of May 2005. During 2005 the Rijeka refinery processed 3.123 million tonnes of imported oil and the Sisak refinery 1.731 million tonnes of which 855,000 came from domestic crude oil reserves. Domestic crude oil accounted for 18% of total crude oil processed. Among other types of crude supplied from export, REB accounted for the largest portion (80%) and it was mainly supplied from the Mediterranean. The lubricants plant Maziva Rijeka processed 330,000 tonnes of atmospheric residue, of which 202,000 was supplied from export and the remaining volumes were produced by the Rijeka refinery.

INA Refineries Processed volumes in kilotonnes	2001	2002	2003	2004	2005
Domestic oil	923	1.059	973	935	855
Imported oil	3.909	3.771	3.895	4.145	3.999
Atmospheric residue & semi-finished products	152	418	597	426	320
Total Feedstock	**4.984**	**5.248**	**5.465**	**5.506**	**5.174**

BUSINESS ACTIVITIES
REFINING AND WHOLESALE

During 2005 the share of white products was lower than in 2004. This was a result of the shutdown (planned turnaround) of one refinery and difficult processing conditions during the year in both refineries. It is to be mentioned that the output of European quality products increased by 22% in comparison with 2004. The consumer demand for EU quality products in the Croatian market was fully met.

With minor investments INA carried out upgrading of the existing processing units in the third quarter of 2005 to enable production of gasoline and diesel fuels according to EU specification IV. The upgrade in the Rijeka refinery included replacement of catalysts in HDS/MHC units. In December 2005 the isomerization unit was put into operation contributing to enhanced output. Similarly, catalyst replacement and minor revamps were carried out in the Sisak refinery.
At the beginning of December the refineries in Rijeka and Sisak started the production of 50 ppm sulphur for gasoline and diesel with the new quality products being officially launched in January 2006.

INA's refined products output in 2005 (in kilotonnes)	**2005**
LPG	290
Virgin naphtha	177
Motor gasoline	1.168
Gas oils	1.702
Fuel oil	906
Coke	33
Bitumen	181
Motor oils	11
Base oils	36
Paraffin	7
Other	33
Semi-finished products	26
Total products	**4.570**
Internal consumption and losses	604
Total	**5.174**

INA has continued efforts aimed at further rationalisation and optimisation of operations in refining, logistics and wholesale. By the end of 2005 a new logistics strategy was designed and approved which included network design, upgrading of terminals in accordance with EU requirements and transport optimization. The implementation phase for the logistics strategy will take place in 2006. The SAP project is in the development phase.

The most important project - the modernisation of refineries is in the implementation stage, too. During 2005 all the relevant decisions have been passed by the Management and Supervisory Board. In September a new organisational unit was set up, the Investment Centre, which is responsible for the realisation of the modernisation project. The project will enable expanding of refining capacity, reaching EURO V quality standards of products and environmentally friendly technology. The project will be executed in phases. The first phase started in 2005 with the contract concluded for the delivery and construction of sulphur recovery unit (SRU) for the Sisak Refinery. The installation of the unit in 2007 will enable significant decrease of SO_2 emissions and abandoning of flare technology which today causes spreading of unpleasant odours and air pollution.

The Logistics Department within Refining and Wholesale Division organised transport of 3,140,000 tonnes of crude oil and products in the Croatian market. The highest portion of products was transported by road 50%, by sea 30% and by rail 15%. The remaining 5% relates to the transport of crude oil along the Sava river from the production fields to the Sisak refinery.

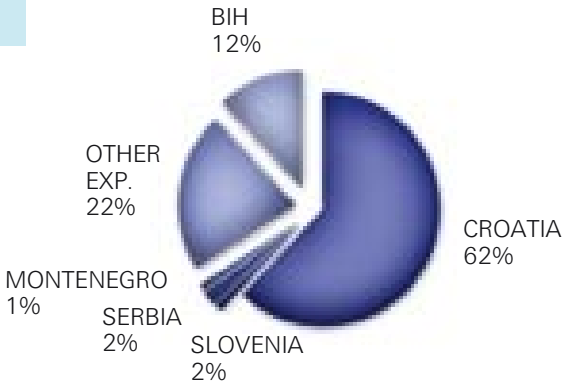
INA truck fleet in the process of being modernized. The acquisition of new trucks was initiated along with standardization of the fleet and its compliance with the new regulations and safety and efficiency requirements.

Wholesale

In 2005 Refining and Wholesale Division sold a total of 4.856 million tonnes of products, of which 3.010 million tonnes were sold in the Croatian market and 1.846 million tonnes in export markets. Domestic sales of products increased by 4.1% in comparison with 2004, while exports dropped by 7%. In total, domestic sales accounted for 62% and export sales for 38%.

The share of Euro specification gasoline in total sales was by 27% higher than in previous year, which is quite a success considering the limited processing technology available.

More than half of total exports were delivered into the Mediterranean market. Export of products to Bosnia and Herzegovina was lower than in previous year as a result of smaller production volumes and higher demand for Euro quality products in the Croatian market. Export of motor gasoline and FCC gasoline recorded considerable increase in respect to 2004. On average wholesale prices in the domestic market increased by 22% over the previous year. Export prices were on average 34% higher, which had positive effect on overall performance.



Wholesale Market Share in 2005

B&H	Croatia	Slovenia	Serbia	Albania	Monte-negro	Other	Total
11.7%	62.0%	1.2%	2.0%	0.2%	1.0%	21.9%	100%

INA's Retail Services Division manages the network of 410 petrol stations in Croatia, 6 in Slovenia and 41 in Bosnia and Herzegovina. INA owns additional number of retail outlets located in Bosnia and Herzegovina, Serbia and Montenegro which are the subject of claims for restitution.

INA's retail operations are organised in 5 business centres spread geographically so as to cover the entire territory of Croatia (Zagreb, Varaždin, Osijek, Rijeka and Split), and are subdivided into 16 business units.

In 2005 INA sold, through its retail network, 1.1 million tonnes of derivatives, which was 2.2% higher than in 2004. Fuel sales accounted for 97.4% of total sales while non-fuel sales (LPG and lubricants) contributed the remaining 2.6%. Shops in INA's retail sites offer over 1,500 different consumer goods. In 2005 the turn over of consumer goods was HRK 485.4 million, VAT excluded, which is 9.9 % up compared to 2004. However, the margin on consumer goods was 20.7% higher than in the previous year.

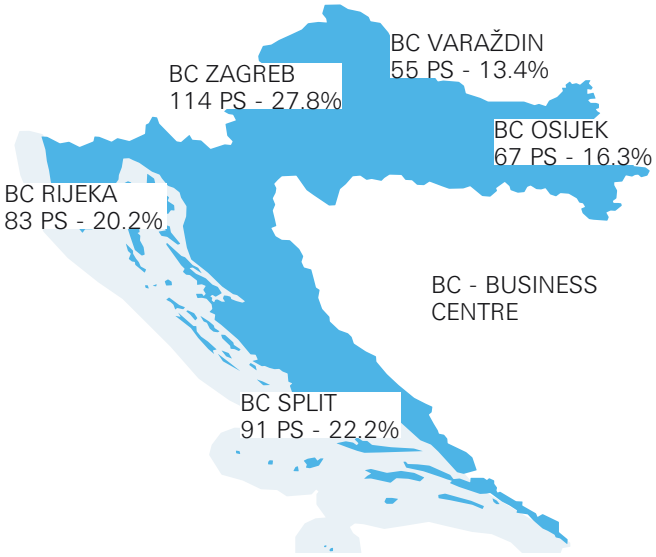
The structure of derivatives sales in 2005 was very similar to that in 2004. Diesel fuels made up the largest share of 55.1%, while the share of motor gasoline was 42.3%. The demand for European grade fuels is growing and at the beginning of January 2006 INA launched its motor gasoline Euro super and Euro diesel with a 50 ppm sulphur content in compliance with the European standards EN 228: 2004 and EN 590:2004.

In 2005 two new petrol stations, Prokljan north and west, were put into operation on the highway route from Zagreb to Split. Three petrol stations were reconstructed (PS Preko on the island of Ugljan, PS Koprivnica - Kolodvorska street and PS Rastovica on the Zagreb - Lipovljani highway.

All newly constructed petrol stations and the reconstructed ones have been redesigned in accordance with new visual identity that was adopted at the beginning of 2005. They have modern shops offering a variety of consumer goods and bars. A new car-wash facility was constructed on retail site, Zagreb-Dubrava.

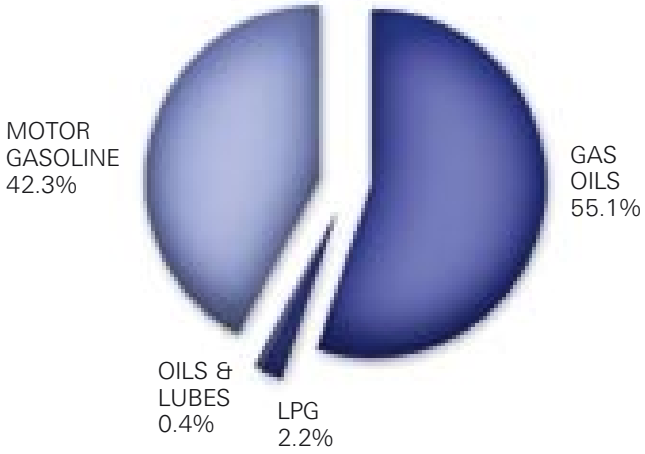
Investments in upgrading the technology and safety level at petrol stations continue including the installation of IT equipment, video-monitoring, alarm systems and special safes.

Our strategic goal is to strengthen the INA brand through further improvements to the retail network, focusing on customers and their satisfaction and by constantly improving the quality of services. Several market research actions and surveys were conducted during 2005. Customers' complaints and comments were analysed and corrective measures undertaken. Follow-up analyses indicated that we achieved significant improvement as the number of complaints regarding the quality of products and services declined. According to the survey results, in 2005 there were 10% less complaints than in 2004. We think it is very important to provide customers with relevant information about our products, particularly regarding fuel grades. Also, we are making efforts to establish good and fair relations with consumer protection associations.



The INA card operations department within the Retail Services Division is constantly expanding its activities. The INA card has a growing number of users and transactions every year. In 2005 total card transactions accounted for 47.22% of total payments on retail sites. All card transactions are processed by the INA Card Centre. By the end of 2005 preparations had been made for providing additional services to our customers, including the payment of highway tolls with the INA card. The project was successfully launched at the beginning of 2006.

For nine years INA has been in direct communication with its customers through a toll free telephone number. Our operators answer questions and give our customers necessary information and advice. Their reports provide valuable inputs for further improvement of our services.



BUSINESS ACTIVITIES
STRATEGIC PARTNERSHIP WITH MOL

By acquiring 25% plus one share, MOL became INA's strategic partner and INA found its way into an integrated regional oil and gas industry partnership consisting of MOL, INA, Slovnaft and TVK. Since the closing of the transaction in November 2003, the partners have seen synergy effects materializing in tangible results. In the Upstream business the partners work jointly in cross-border field operations along the Croatian-Hungarian border. Opportunities are investigated for cooperation in international upstream projects. Sharing of risk and combining of financial and human resources are aimed at improving the operations of both companies. INA is considering a new natural gas import route through Hungary. At the beginning of 2005 INA and MOL introduced the mutual acceptance of each others branded fuel cards at INA's and MOL's petrol stations. MOL is providing assistance and transfer of knowledge to INA in implementation of an integrated Enterprise Information System, SAP R/3 which has proven its values to MOL for years. The partners have consolidated a marketing strategy for the South East European region, including the review of retail positions and joint bidding for potential acquisitions in the region. By signing the transaction agreements, MOL has committed its support to INA's strategy and so far it has consistently done so. The beginning of a comprehensive refinery modernisation project has as its objective to rank INA among the most technically advanced refiners in the region. On March 22nd 2005 INA Supervisory Board approved a complex refinery modernization project, worth 800 - 900 million USD (around current 4,5 billion HRK).
The project is aimed at enabling the expanding of refining capacity and reaching EURO V quality standards of oil products which are expected to become effective in 2009.
As partners, INA and MOL have a unique position in a fast-growing Central European oil product market. In addition, they are strategically well positioned for further expansion in the regional market.
Further development of partnership relations are intended to enable us to exploit synergies in all businesses, to align corporate cultures and to establish communication channels that will enable better utilisation of each company's specialisation. The coordination of market activities, the exchange of knowledge and the implementation of joint projects are intended to help us in the realisation of our growth targets in regional oil, natural gas and derivatives markets.

Changes in accounting policies and correction of prior period error

The changes in accounting policies and prior period adjustments in 2005 financials required that the same should be retroactively applied to 2004 financial statements as well.
This has been explained in detail in the chapter Financial Report (Point 2, Accounting policies). In the following chapter, certain positions in financial statements of the two years are compared on the basis of restated 2004 financials.

2005 FINANCIAL HIGHLIGHTS

INA Group made HRK 1.3 billion of net cash in its operating activities - 58% down on 2004. The Group's net profit in 2005 before non-recurring items decreased by HRK 596 million, from HRK 1,335 million (USD 221 million) in 2004 to HRK 739 million (USD 124 million). Including the effects of non-recurring items, the Group's net profit in 2005 amounted to HRK 885 million (USD 149 million) comparing unfavourably (by HRK 245 million) with 2004 when a profit of HRK 1,130 million (USD 187 million) was recorded. Net profit generated in 2005 by the parent company - INA d.d. - amounted to HRK 892 million (USD 150 million) - 93 million down on 2004, when its profit was HRK 985 million (USD 163 million).

For the **Upstream division of INA d.d.**, the operating profit grew by HRK 416 million in comparison with 2004 and reached HRK 1,527 million, mainly as a result of 40% higher selling prices of crude (including transfer prices) offsetting the negative impacts of lower volumes (dropped by 3%) due to natural depletion of fields.

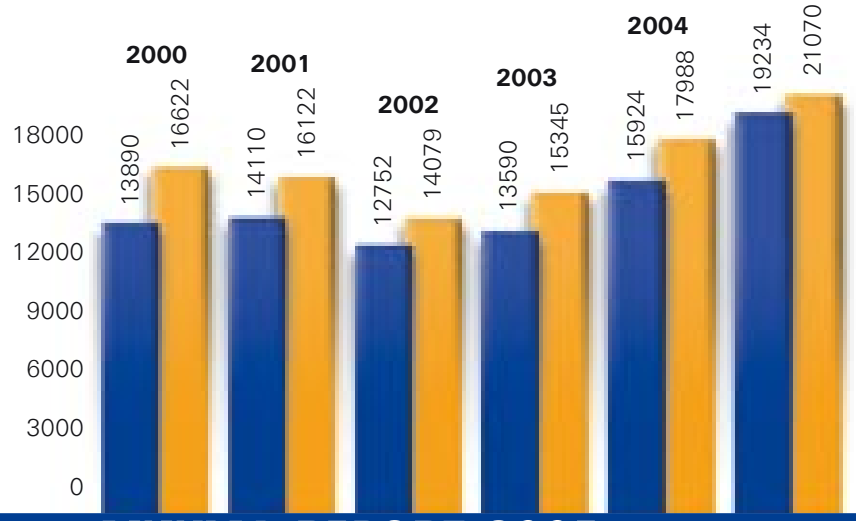
Refining & Wholesale division of INA d.d. recorded HRK 224 million of operating profit. The result compares unfavourably (by HRK 543 million) with the previous year when a HRK 767-million profit was recorded. This decline in profits was caused by:

- Overall adverse balance of changes in business environment due to unfavourable product yield of the refineries had a negative impact on profitability, because the negative impacts (as lower prices of fuel oil or Croatian kuna appreciated against US dollar) overrun the positive (as higher prices of diesel products).
- A limited natural hedge (of petroleum product prices growing parallely with rising crude prices) due to a moderate domestic pricing policy implemented by INA to mitigate the effects of rapidly increasing fuel prices on the costs of living;
- A lower legal price cap in the Croatian market due to the gradually decreasing tariffs on imports from European Union countries applied in the calculation of the price cap resulted in a decrease in domestic sales revenues compared to the same period last year.

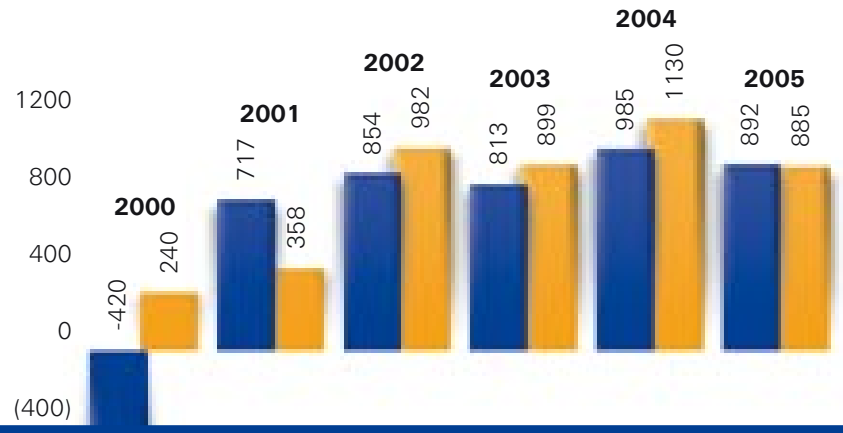
The Retail division of INA d.d. recorded an operating profit of HRK 54 million - 28 million down compared to 2004 as some business activities had been reallocated from Retail to Refining & Wholesale.

Corporate Functions of INA d.d. recorded an operating loss of HRK 665 million, which remained at the level in 2004.
Above divisional figures are unaudited.

SALES INCOME: INA d.d./ INA GROUP



NET PROFIT: INA d.d./ INA GROUP



EFFECTS OF NON-RECURRING ITEMS ON NET PROFIT (HRK mill)	2005	2004	2005	2004
	INA-Group	INA-Group	INA d.d.	INA d.d.
Provisions for incentive measures for termination of employment in the period 2005-2007	(32)	(145)	(24)	(145)
Provisions for the obligation to reimburse a partner in joint venture (ENI Croatia B.V.) for Profit Tax payment	(93)	(60)	(93)	(60)
Tax authority claims	(49)		(49)	
Effects of changed criteria for doubtful trade debtors provisions				
Proceeds from disposal of interest in Noble Crosco Drilling Ltd	38			
Dividend received	282		247	
Total effect on net income	**146**	**(205)**	**91**	**(205)**

INA's financial performance was influenced by the following factors:

- A global increase of crude oil prices with the average benchmark price of Brent crude up by 42% compared to 2004 (from 38.26 USD/bbl to 54.52 USD/bbl) pushing up the average net price of imported crude by 43%,
- Unfavourable change in spreads of refined product prices: the margin between the average selling prices of refined products and the cost of processed crude decreased by 59 HRK/t (10 USD/t) or 7% in comparison with 2004,
- Appreciation of HRK against USD (average exchange rate for 2005: 1USD = 5.95 HRK compared to 1 USD = 6.04 HRK in 2004),
- Effects of non-recurring items.

CASH FLOW

In 2005, net cash generated by INA Group in its operating activities decreased by 58% in comparison with the prior year figure reaching the amount of HRK 1,264 million mainly due to a higher value of inventories while net cash from operating activities (disregarding working capital changes) remained at approximately the same level. The value of inventories increased mainly due to higher inventories of imported crude and higher prices.

Cash used for non-current asset acquisitions amounted to HRK 2,207 million - decreased by 6% compared to 2004. It was mainly invested in development operations in Croatia, exploration activities outside Croatia and refinery modernisation.
Net cash inflows in financing activities amounted to HRK 378 million as a balance of a higher level of short-term borrowings and decreased level of long-term debt.

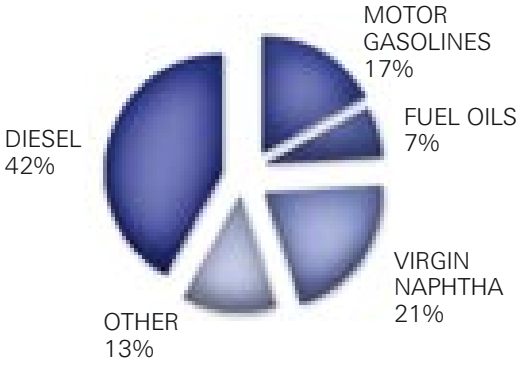
During 2005, net cash and cash equivalents for the Group decreased by HRK 338 million to HRK 376 million as at 31 December 2005.

Cash flow - INA-Group (HRK millions)	2005	2004
Operating activities	1,264	3,023
Investing activities	(1,980)	(2,292)
Financing activities	378	(351)
Net increase / decrease of cash	(338)	380

LIQUIDITY AND SOLVENCY

As at 31 December 2005, INA Group's total assets amounted to HRK 20 billion, 66% of which related to non-current assets (compared to 69% in 2004). The equity/total assets ratio slightly deteriorated to 58% (compared to 60% in 2004). Total assets of INA d.d. as at 31 December 2005 amounted to HRK 19 billion - 3 billion up over the prior period. Total non-current assets of HRK 12,841 million increased by 11% compared to 31 December 2004 as a result of investments in tangible and intangible assets of HRK 2 billion during 2005.
Net debt of INA d.d. (long-term debt plus short-term borrowings less cash) as at 31 December 2005 was reduced by HRK 16 million and amounted to HRK 977 million. Thus the level of indebtedness (net debt/ net debt plus capital and reserves) dropped from 9% to 8%.
At the end of 2005, the Group's total debt amounted to HRK 1.2 billion, with HRK 476 million falling due in 2006. During 2005, the Group repaid HRK 457 million of its debt.
Long-term debt of INA d.d. as at 31 December 2005 amounted to HRK 972 million, with HRK 366 million of principal repayments falling due in 2006. 71% of its total debt was US dollar-denominated, 27% was denominated in EUR and the rest in other currencies. Long-term debt repaid in 2005 amounted to HRK 355 million.

SALES DOMESTIC STRUCTURE 2005



TAXES

In 2005, INA d.d. tax liabilities and payments included the following:
- Excise duty on refined products in the amount of HRK 2.7 billion,
- VAT of HRK 323 million, and
- Corporation tax of HRK 223 million, including current tax expense of HRK 198 million and deferred tax relating to temporary differences of 25 million.

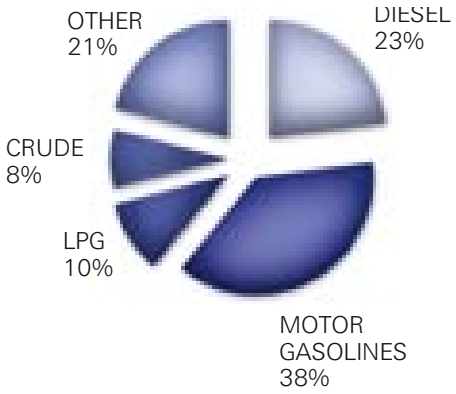
INA d.d. INCOME STATEMENT

In 2005, the parent company - INA d.d. - increased its net sales by 21% in comparison with the prior year, and its total turnover amounted to HRK 19,234 million (USD 3,232 million). Domestic sales rose by HRK 2.2 billion (or 20%) and represented 70% of total sales. Higher turnover was a result of favourable margins and an active pricing policy.

Total sales of refined products decreased by 24,000 mt (with domestic sales up by 120,000 mt and exports down by 144,000 mt). Total volume of sales was 4,968,000 mt. Total sales of gasolines (including virgin naphtha) dropped by 2,000 mt, but fuel oil increased by 158,000 mt (domestic sales rose by 220,000 mt but exports dropped by 62,000 mt), LPG by 16,000 mt, and other products by 12,000 mt, with diesel sales up by 152,000 mt. Natural gas sales declined by 118 million m^3/33,338.35 kJ to 2,751 million m^3/33,338.35 kJ while sales revenues (including gas transmission revenues which remained almost at the prior year level) were up by HRK 62 million.

The average selling prices rose by 7% compared to 2004, also contributing to higher sales revenues. Additional revenues of HK 85 million came from final settlement for gas transmission in 2004 and 2005, but without any effect on profits as previously contained in costs.
Exports sales revenues amounted to HRK 5,749 million (USD 966 million) - 24% up on 2004 - , as a result of higher volume of exported motor gasolines with sales revenues up by 46%, crude and condensate (revenues up by 72%) and other refined products (by 82%). In spite of lower volumes exported, the revenues of sales of fuel oil increased by 27%, LPG by 11%, and gas oils by 2%. Revenues from virgin naphtha exports dropped by 8% mainly because of 24% lower volume of sales.
In 2005, the discounts were reduced by 37% compared to 2004, which had a positive impact on sales revenues.

EXPORT STRUCTURE 2005



FINANCIAL RESULTS
2005 FINANCIAL HIGHLIGHTS

Costs of raw materials and supplies were up by HRK 2,492 million due to higher cost of refined crude (by 226 KT) as its average prices went up by 43%
Inventories of crude (including 382 KT of crude in transit as at 31 December 2004) increased to 616 KT (by 227 KT or 58%) while those of WIP and finished products decreased to 536 KT (decreased by 10 KT or 2% compared to the prior period).
Depreciation decreased by HRK 5 million.

Asset adjustments were down by HRK 16 million compared to the prior period as a result of lower impairment adjustments of investments and lower provisions under IAS 36.

Total staff costs grew by HRK 235 million (or 19%). Gross salaries (including other disbursements treated as receipts from employment) increased by HRK 153 million (14%) while other staff costs increased by HRK 83 million (58%).

Cost of goods for resale was up by HRK 1,045 million mainly as result of higher imports of European-grade refined products and the change in recording natural gas inventories in the underground storage Okoli.

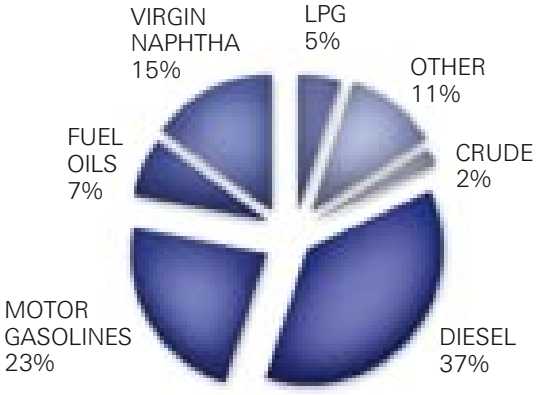
Other cost items were down by HRK 309 million mostly due to the accounting estimation change in recording gas inventories, but also due to a higher level of inventories at Refining & Wholesale and higher prices.

Financial income was considerably higher than in 2004, mainly as result of dividends received from HOLDINA Guernsey, INTERINA Holding and FPC Ltd.

Total financial expenses compare unfavourably to 2004, mainly due to foreign exchange losses on long-term debt and trade creditors for imported crude, and higher interest payable.

Corporation tax for 2005 amounted to HRK 223 million - HRK 68 million below the tax expense in 2004.

TOTAL SALES STRUCTURE 2005



BALANCE SHEET

As at 31 December 2005, total INA d.d. assets amounted to HRK 19 billion, which was 17% up on the previous year-end.
Non-current tangibles and intangibles increased by 12%. Intangible assets were significantly reduced because partly restated as tangibles and because of lower investments in exploration activities, while the tangibles increased as a result of investments in development operations in the Adriatic, refinery modernisation projects and retail network development.

Current assets increased by 32%, mainly as a result of higher inventories of crude, intermediates and finished goods, and their higher prices.

The amount of trade debtors (from both domestic sales and exports) net of provisions for overdue and doubtful debt increased.

Projects to reduce the level of inventories and the amount of trade debtors are under way.
In 2005, cash and cash equivalents declined significantly as the operating cash inflows could not fully cover the investment cash outflows. Long-term debt repayments also contributed to that decline as no substantial loans had been utilised.

The amount of long-term provisions increased mainly due to provisions for future decommissioning and environmental restoration costs.

The balance of long-term debt was reduced for repayments of debt fallen due.

The amount of trade creditors and other current liabilities increased in comparison with 2004, mainly as a result of higher current liabilities towards associate companies including the liabilities for imported crude, while the liabilities to end suppliers had been settled.

FINANCIAL RESULTS
2005 FINANCIAL HIGHLIGHTS

KEY FINANCIAL INDICATORS - INA-GROUP	2005	2004	2005 / 2004
KEY FINANCIAL DATA			
Total turnover (HRK millions)	21,070	17,988	117
EBITDA (HRK millions)	2,475	2,447	101
Operating profit (HRK millions)	1,483	1,446	103
P.B.T. (HRK millions)	1,146	1,433	80
Net profit (HRK millions)	885	1,130	78
Net cash from operating activities (HRK millions)	1,264	3,023	42
Total CAPEX (HRK millions)	2,130	2,339	91
Return on equity (ROE) %	7.51	10.49	72
Return on capital employed (ROCE) %	10.91	12.35	88
KEY OPERATING DATA			
Net proven reserves			
- Oil (bbl millions)	69.74	74.18	94
- Natural gas (bbl millions)	187.35	178.04	105
Total hydrocarbons (BOE millions)	257.09	252.21	102
AVERAGE DAILY PRODUCTION			
- Oil (bbl 000 per day)	17.54	18.90	93
- Natural gas (bbl 000 per day)	31.26	31.49	99
Total hydrocarbons (BOE 000 per day)	48.80	50.39	97
Natural gas sales (m^3 millions)	2,751.99	2,868.70	96
LPG sales (000 t)	73.82	77.67	95
CRUDE AND CONDENSATE SALES			
- Domestic sales (000 t)	826.31	896.56	92
- Exports (000 t)	187.98	150.04	125
Total sales of crude and condensate (000 t)	1,014.29	1,046.60	97
NUMBER OF PETROL STATIONS			
-Croatia	415	428	100
-Region*	42	46	102
Total number of petrol stations	457	474	101
*excluding those inaccessible			

FINANCIAL RESULTS
2005 FINANCIAL HIGHLIGHTS

KEY FINANCIAL INDICATORS - INA-d.d.	2005	2004	2005 / 2004
KEY FINANCIAL DATA			
Total turnover (HRK millions)	19,234	15,924	121
EBITDA (HRK millions)	1,936	2,091	93
Operating profit (HRK millions)	1,140	1,289	88
P.B.T. (HRK millions)	1,115	1,276	87
Net profit (HRK millions)	892	985	91
Net cash from operating activities (HRK millions)	1,860	2,052	91
Total CAPEX (HRK millions)	1,928	2,065	93
Return on equity (ROE) %	8.31	10.06	83
Return on capital employed (ROCE) %	9.73	11.95	81
KEY OPERATING DATA			
Net proven reserves			
- Oil (bbl millions)	69.74	74.18	94
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Total hydrocarbons (BOE millions)	257.09	252.21	102
AVERAGE DAILY PRODUCTION			
- Oil (bbl 000 per day)	17.54	18.90	93
- Natural gas (bbl 000 per day)	31.26	31.49	99
Total hydrocarbons (BOE 000 per day)	48.80	50.39	97
Natural gas sales (m^3 millions)	2,751.99	2,868.70	96
LPG sales (000 t)	73.82	77.67	95
CRUDE AND CONDENSATE SALES			
- Domestic sales (000 t)	826.31	896.56	92
- Exports (000 t)	187.98	150.04	125
Total sales of crude and condensate (000 t)	1,014.29	1,046.60	97
NUMBER OF PETROL STATIONS			
-Croatia	410	410	100
-Region*	41	40	103
Total number of petrol stations	451	450	100

*excluding those inaccessible

INA - Industrija Nafte d.d. Zagreb and its subsidiaries

Financial statements for the year ended 31 December 2005
together with independent auditors' report

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Responsibility for the financial statements

Pursuant to the Croatian Accounting Law, the Management Board is responsible for ensuring that financial statements are prepared for each financial year in accordance with International Financial Reporting Standards (IFRS) as published by the International Accounting Standards Board (IASB) which give a true and fair view of the state of affairs and results of the company and the group for that period.
After making enquiries, the Board has a reasonable expectation that the company and group have adequate resources to continue in operational existence for the foreseeable future. For this reason, the Board continues to adopt the going concern basis in preparing the financial statements.

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

- suitable accounting policies are selected and then applied consistently;
- judgements and estimates are reasonable and prudent;
- applicable accounting standards are followed, subject to any material departures disclosed and explained in the financial statements; and
- the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the company and the group will continue in business.

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

Signed on behalf of company and group on 17 March 2006: Tomislav Dragičević, ScD, President of the Management Board
INA - Industrija Nafte d.d. Zagreb, Republic of Croatia, 10000 Zagreb, Avenija Većeslava Holjevca 10

INA - INDUSTRIJA NAFTE d.d. ZAGREB
INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of INA - Industrija Nafte d.d. Zagreb (the 'Company') and its subsidiaries (the 'Group') which comprise the balance sheet as at 31 December 2005 and the related income statement, statement of changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.
These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements, taken as a whole, based on our audit.

We conducted our audit in accordance with International Standards on Auditing issued by the International Federation of Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.
An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements.
An audit also includes assessing the accounting principles used and the significant estimates made by management as well as evaluating the overall financial statement presentation.
We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements present fairly, in all material respects, the financial position of the Company and the Group as at 31 December 2005, and of the results of its operations, changes in equity and its cash flows and for the year then ended in accordance with International Financial Reporting Standards.

Deloitte.

Deloitte d.o.o.
Zagreb, Croatia
17 March 2006

INA GROUP
CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2005
(all amounts in HRK millions)

	Notes	2005	2004 Restated
Sales revenue			
a) Domestic		13,690	11,766
b) Exports		7,380	6,222
Total sales revenue	3	21,070	17,988
Income from own consumption of products and services		636	447
Other operating income		554	489
Total operating income		22,260	18,924
Changes in inventories of finished products and work in progress		508	100
Cost of raw materials and consumables		(11,024)	(8,293)
Depreciation and amortisation	4	(993)	(1,001)
Other material costs		(2,206)	(2,028)
Service costs		(1,008)	(955)
Staff costs	5	(2,257)	(1,969)
Cost of other goods sold		(3,307)	(2,794)
Impairment charges (net)		(475)	(409)
Provisions for charges and risks		(88)	(152)
Operating expenses		(20,850)	(17,501)
Profit / Loss from operations		1,410	1,423
Share in the profit of associated companies	12	73	23
Investment revenue	6	181	354
Finance costs	7	(518)	(367)
Net (loss) / profit from financial activities		(337)	(13)
Profit for the year before taxation		1,146	1,433
Current taxes	8	(236)	(313)
Deferred taxes	8	(25)	10
Minority interest		-	-
Profit / (Loss) for the year		885	1,130

Signed on behalf of the Group on 17 March 2006: T. Dragičević L. Geszti

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

INA MATICA
COMPANY INCOME STATEMENT

Year ended 31 December 2005
(all amounts in HRK millions)

	Notes	2005	2004 Restated
Sales revenue			
a) Domestic		13,485	11,281
b) Exports		5,749	4,643
Total sales revenue	3	19,234	15,924
Income from own consumption of products and services		29	14
Other operating income		373	405
Total operating income		19,636	16,343
Changes in inventories of finished goods and work in progress		510	99
Cost of raw materials and consumables		(10,364)	(7,872)
Depreciation and amortisation	4	(797)	(802)
Other material costs		(1,867)	(1,786)
Service costs		(877)	(776)
Staff costs	5	(1,484)	(1,248)
Cost of goods for resale		(3,112)	(2,067)
Impairment charges (net)		(441)	(457)
Provisions for charges and risks		(64)	(145)
Operating expenses		(18,496)	(15,054)
Profit/(Loss) from operations		1,140	1,289
Investment revenue	6	378	216
Finance costs	7	(403)	(229)
Net (loss) / profit from financial activities		(25)	(13)
Profit before taxation		1,115	1,276
Current taxation	8	(198)	(301)
Deferred taxation	8	(25)	10
Profit/(Loss) for the year		892	985

Signed on behalf of the Group on 17 March 2006: T. Dragičević L. Geszti
The accompanying accounting policies and notes are an integral part of this income statement.

INA GROUP
CONSOLIDATED BALANCE SHEET

Year ended 31 December 2005
(all amounts in HRK millions)

ASSETS	Notes	2005	2004 Restated
Non-current assets			
Intangible assets	9	551	1,351
Property, plant and equipment	10	12,009	10,017
Investments in associates and joined ventures	12	58	144
Investments in other companies	13	54	59
Long-term receivables	14	204	218
Derivative financial instruments	32	225	135
Deferred tax	8	92	117
Available for sale assets	13	256	211
		13,449	**12,252**
Current assets			
Inventories	15	3,442	2,350
Trade receivables net	16	2,304	1,983
Other receivables	16	262	200
Derivative financial instruments	32	64	149
Other current assets	16	57	15
Prepayments and advances	17	341	157
Cash with bank and in hand		376	714
		6,846	**5,568**
TOTAL ASSETS		**20,295**	**17,820**

Signed on behalf of the Company on 17 March 2006: T. Dragičević L. Geszti

INA GROUP
CONSOLIDATED BALANCE SHEET

31 December 2005
(all amounts in HRK millions)

EQUITY AND LIABILITIES	Notes	2005	2004 Restated
Capital and reserves			
Share capital	25	9,000	9,000
Revaluation reserve		(96)	(141)
Other reserves	26	2,390	2,349
Retained earnings / (Deficit)	27	483	(446)
		11,777	**10,762**
Minority interests	28	6	6
TOTAL EQUITY		**11,783**	**10,768**
Non-current liabilities			
Long-term loans	21	748	842
Other non-current liabilities	22	162	178
Employee benefits obligation	24	71	56
Long-term provisions	23	1,759	1,443
		2,740	**2,519**
Current liabilities			
Bank loans and overdrafts	18	958	345
Current portion of long-term debt	18	476	462
Accounts payable	19	3,239	2,202
Taxes and contributions	19	592	1,062
Other short-term liabilities	19	184	143
Accruals and deferred income	20	167	106
Employee benefits obligation	24	7	11
Short-term provisions	23	149	202
		5,772	**4,533**
TOTAL LIABLITIES		**8,512**	**7,052**
TOTAL EQUITY AND LIABILITIES		**20,295**	**17,820**

Signed on behalf of the Group on 17 March 2006: T. Dragičević L. Geszti

INA MATICA
COMPANY BALANCE SHEET

Year ended 31 December 2005
(all amounts in HRK millions)

ASSETS	Notes	2005	2004 Restated
Non-current assets			
Intangible assets	9	538	1,339
Property, plant and equipment	10	10,318	8,328
Investments in subsidiaries	11	964	964
Investments in associates and joined ventures	12	58	45
Investments in other companies	13	47	41
Long-term receivables	14	344	347
Derivative financial instruments	32	225	135
Deferred tax	8	91	116
Available-for-sale assets	13	256	211
		12,841	**11,526**
Current assets			
Inventories	15	3,035	1,982
Intercompany receivables		501	382
Trade receivables, net	16	1,604	1,457
Other receivables	16	194	140
Derivative financial instruments	32	64	149
Other current assets	16	40	9
Prepayments and advances	17	310	145
Cash with bank and in hand		148	207
		5,896	**4,471**
TOTAL ASSETS		**18,737**	**15,997**

Signed on behalf of the Company on 17 March 2006: T. Dragičević L. Geszti

INA MATICA
COMPANY BALANCE SHEET

31 December 2005
(all amounts in HRK millions)

EQUITY AND LIABILITIES	Notes	2005	2004 Restated
Capital and reserves			
Share capital	25	9,000	9,000
Revaluation reserve		(96)	(141)
Other reserves	26	1,952	1,952
Retained earnings / (Deficit)	27	(119)	(1,011)
TOTAL EQUITY		**10,737**	**9,800**
Non-current liabilities			
Long-term loans	21	606	645
Other non-current liabilities	22	162	175
Employee benefits obligation	24	48	37
Long-term provisions	23	1,679	1,360
		2,495	**2,217**
Current liabilities			
Bank loans and overdrafts	18	153	188
Current portion of long-term debt	18	366	367
Intercompany payables		2,708	1,022
Accounts payable	19	1,412	1,139
Taxes and contributions	19	500	877
Other short-term liabilities	19	112	112
Accruals and deferred income	20	115	65
Employee benefits obligation	24	5	8
Short-term provisions	23	134	202
		5,505	**3,980**
TOTAL LIABLITIES		**8,000**	**6,197**
TOTAL EQUITY AND LIABILTIES		**18,737**	**15,997**

Signed on behalf of the Group on 17 March 2006: T. Dragičević L. Geszti

INA GROUP
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2005
(all amounts in HRK millions)

	Share capital	Other reserves	Revaluation reserves	Acumulated deficit	Equity	Minority interest	Total
Balance at 1 January 2004	9,000	2,391	-	(1,339)	10,052	-	10,052
Effect of changes in the accounting policies	-	-	-	(15)	(15)	-	(15)
Correction of prior-year error	-	-	-	(222)	(222)	-	(222)
Balance at 1 January 2004 (restated)	9,000	2,391	-	(1,576)	9,815	-	9,815
Paid up capital	-	-	-	-	-	-	-
Gains / losses on available for sale investments	-	-	(141)	-	(141)	-	(141)
Exchange differences on translation of the financial statements of foreign operations	-	(42)	-	-	(42)	-	(42)
Profit for the year	-	-	-	1,130	1,130	6	1,136
Balance at 31 December 2004	9,000	2,349	(141)	(446)	10,762	6	10,768
Balance at 1 January 2005	9,000	2,349	(141)	(446)	10,762	6	10,768
Adoption of revised International Financial Reporting Standards	-	-	-	44	44	-	44
Balance at 1 January 2005 (restated)	9,000	2,349	(141)	(402)	10,806	6	10,812
Gains / losses on available for sale investments	-	-	45	-	45	-	45
Exchange differences on translation of the financial statements of foreign operations	-	41	-	-	41	-	41
Profit for the year	-	-	-	885	885	-	885
At 31 December 2005	9,000	2,390	(96)	483	11,777	6	11,783

Signed on behalf of the Group on 17 March 2006: T. Dragičević L. Geszti
The accompanying accounting policies and notes are an integral part of this consolidated statement of changes in equity.

INA MATICA
COMPANY STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2005
(all amounts in HRK millions)

	Share capital	Other reserves	Revaluation reserves	Accumulated deficit	Equity	Minority interest	Total
Balance at 1 January 2004	9,000	1,952	-	(1,759)	9,193	-	9,193
Effect of changes in the accounting policies	-	-	-	(15)	(15)	-	(15)
Correction of prior-year error	-	-	-	(222)	(222)	-	(222)
Balance at 1 January 2004	9,000	1,952	-	(1,996)	8,956	-	8,956
Paid-up capital	-	-	-	-	-	-	-
Gains / (Losses) on available-for-sale investments	-	-	(141)	-	(141)	-	(141)
Exchange differences on translation of the financial statements of foreign operations	-	-	-	-	-	-	-
Profit for the year	-	-	-	985	985	-	985
At 31 December 2004	9,000	1,952	(141)	(1,011)	9,800	-	9,800
Paid-up capital	-	-	-	-	-	-	-
Gains / (Losses) on available-for-sale investments	-	-	45	-	45	-	45
Profit for the year	-	-	-	892	892	-	892
At 31 December 2005	9,000	1,952	(96)	(119)	10,737	-	10,737

Signed on behalf of the Group on 17 March 2006: T. Dragičević L. Geszti
The accompanying accounting policies and notes are an integral part of this statement of changes in equity..

INA GROUP
CASH FLOW STATEMENT

Year ended 31 December 2005
(all amounts in HRK millions)

	2005	2004 Restated
Operating profit	**1,483**	**1,446**
Depreciation, depletion and amortisation	993	1,001
Impairment charges for current and non-current asset	475	386
Change in provision for charges and risks and other non-cash items	(212)	(27)
Operating cash flow before working capital changes	**2,739**	**2,806**
(Increase)/decrease in inventories	(1,257)	49
Increase in receivables and prepayments	(556)	(146)
Increase in trade and other payables and	878	436
Taxes paid	(540)	(122)
Net cash inflow from operating activities	**1,264**	**3,023**
Cash flows used in investing activities		
Purchase of tangible and intangible assets	(2,207)	(2,343)
Proceeds from sale of non-current assets	9	37
Purchase of investments	(20)	(9)
Dividends received	5	2
Proceeds from sale of investments (Crosco Noble Drilling)	222	-
Interest received	3	2
Investments and loans to third parties, net	8	19
Net cash (outflow) from investing activities	**(1,980)**	**(2,292)**
Cash flows from financing activities		
Additional long-term borrowings	322	237
Repayment of long-term borrowings	(457)	(406)
Net drawdown /(repayment) of short term borrowings	597	(68)
Interest paid on long-term loans	(48)	(40)
Other long-term liabilities, net	(16)	(11)
Interest paid on short term loans and other financing charges	(59)	(31)
Net cash inflow/(outflow) inflow from financing activities	**339**	**(319)**
Net (decrease)/ increase in cash and cash equivalents	**(377)**	**412**
At 1 January	714	334
Foreign exchange movements	39	(32)
At 31 December	**376**	**714**

Signed on behalf of the Group on 17 March 2006: T. Dragičević L. Geszti

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

INA MATICA
COMPANY CASH FLOW STATEMENT

Year ended 31 December 2005
(all amounts in HRK millions)

	2005	2004 Restated
Operating profit	1,140	1,289
Depreciation charges	797	802
Impairment charges for current and non-current asset	441	457
Change in provision for charges and risks and other non-cash items	(121)	(34)
Operating cash flow before working capital changes	2,257	2,514
(Increase) / decrease in inventories	(1,207)	108
Increase in receivables and prepayments	(481)	(67)
Increase / (decrease) in trade and other payables	1,810	(395)
Taxes paid	(519)	(108)
Net cash inflow from operating activities	1,860	2,052
Cash flows used in investing activities		
(Purchase) of tangible and intangible assets	(2,004)	(2,068)
Proceeds from sale of non-current assets	11	7
(Purchase) of investments	(21)	(3)
Dividends received	254	4
Interest received	3	4
Investments and loans to third parties, net	(23)	26
Net cash (outflow) from investing activities	(1,780)	(2,030)
Cash flows from financing activities		
Additional long-term borrowings	289	237
Repayment of long-term borrowings	(355)	(330)
Net (repayment) / drawdown of short term borrowings	(45)	223
Interest paid on long-term loans	(35)	(29)
Other long-term liabilities	(13)	(11)
Interest paid on short term loans and other financing charges	(17)	(13)
Net cash (outflow) / inflow from financing activities	(176)	77
Net (decrease) / increase in cash and cash equivalents	(96)	99
At 1 January	207	99
Foreign exchange movements	37	9
At 31 December	148	207

Signed on behalf of the Group on 17 March 2006: T. Dragičević L. Geszti
The accompanying accounting policies and notes are an integral part of this cash flow statement.

1. GENERAL

History and incorporation

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

By the end of that decade INA had expanded to include the Zagreb refinery, Trgovina (a domestic trade organisation), the OKI and DINA organic petrochemical operations and the Kutina fertiliser plant. In 1974, INA was transformed into a "complex organisation of associated work" or "s.o.u.r.", a step which also involved the formation of a number of separate companies. The organisation continued in this form until 1990 when, under the terms of Law 42/90 and the 61/91 supplement, INA became a state owned enterprise.

In 1993 INA became a share based company (or "d.d.") pursuant to Law 60/93. At the date of release of these financial statements, 25 % plus one share is owned by MOL Rt (MOL), while the remaining shares are owned by the Republic of Croatia.

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

Effective 11 March 2002, the Croatian Government acquired the company's subsidiary, Plinacro d.o.o., together with a 21.37 % interest in JANAF d.d., the company which owns and operates the Adria pipeline system, in consideration for assuming US$ 172 million (HRK 1,438 million) of the company's long-term debt with the London and Paris club. On 19 March 2002, the Croatian Parliament passed the Law on the Privatisation of INA (Official Gazette 32/02), governing INA's privatisation process by allocating INA's shares to several target groups. Under 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 initial public offering, Croatian war veterans and members of their families were to receive up to 7% without consideration, up to 7% were to be sold to present and former employees of INA group companies and the remaining shares were to be sold or exchanged depending on the prevailing market conditions. The remaining shares were to be exempted to the extent necessary for the compensation to the original, former owners. The Republic of Croatia will maintain ownership of over 25% plus one share of INA, which will be privatised once Croatia becomes a member of the European Union. The sequence and progress of individual privatisation stages are determined by decisions of the Croatian Government, agreed to by the Croatian Parliament (official gazette: Narodne novine 47/02, 77/04, 66/05).

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

The invitation to international tender for the selection of the financial advisor to the Government in the process was released after that, with the consortium Merrill Lynch - Raiffeisen Bank selected as the advisor.
The contract between the Croatian Government and the Consortium was signed in January 2006.

The activities of the consultants are in progress at the time of issue of these financial statements. The primary purpose of the engagement is to propose to the Croatian Government the most favourable model for continuing the privatisation 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),

Principal activities

The principal activities of INA and its subsidiaries (the group), are:
(i) exploration and exploitation of oil and gas deposits, primarily onshore and offshore within Croatia; other licence interests are held in Angola, Egypt and Syria;

(ii) import of natural gas and sale of imported and domestically produced natural gas to industrial consumers and municipal gas distributors;

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

(iv) distribution of fuels and associated products through a chain of some 457 retail outlets in operation as of 31 December 2005 (of which 415 in Croatia and 42 outside Croatia);

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

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

The group has dominant positions in Croatia over oil and gas exploration and production, oil refining, and the marketing of gas and petroleum products. INA also holds a 16.00% interest in JANAF d.d., the company that owns and operates the Adria pipeline system.
The headquarters of the group are located in Zagreb, Avenija V. Holjevca 10, Croatia. As at 31 December 2005 there were 15,989 persons employed at the group (2004 - 16,147). The group comprises a number of wholly and partially owned subsidiaries operating largely within the Republic of Croatia. Foreign subsidiaries include a number of trading subsidiaries which generally act as distributors of INA group products, suppliers of raw materials, arrangers of finance and as representative offices within their local markets.
A full list of the principal subsidiaries is included in notes 11 and 12 to the financial statements.

Supervisory Board until 2 May 2005	
Ivan Šuker	Chairman
Zoltán Áldott	Deputy Chairman
Božidar Kalmeta	
Ante Babić, ScD	
Branimir Glavaš	
György Mosonyi	

Supervisory Board since 5 May 2005	
Ivan Šuker	Chairman
Zoltán Áldott	Deputy Chairman
Božidar Kalmeta	
Damir Polančec	
Tomislav Ivić	
György Mosonyi	

Management Board until 31 January 2005	
Tomislav Dragičević, ScD	President of the Board
László Geszti	Vice-president of the Board - Executive Director Finance Function
Prof. Mirko Zelić, ScD	Member of the Board - Executive Director Business Segment Exploration and Production
Zorko Badanjak	Member of the Board - Executive Director Business Segment Refining and Wholesale
Josip Petrović	Member of the Board - Executive Director Business Segment Retail Services
Tomislav Thür	Member of the Board - Director Corporate Processes Function
Béla Cseh	Member of the Board - Director Corporate Services Function

Management Board from 1 February to 31 July 2005	
Tomislav Dragičević, ScD	President of the Board
László Geszti	Vice-president of the Board - Executive Director Finance Function
Prof. Mirko Zelić, ScD	Member of the Board - Executive Director Business Segment Exploration and Production
Zorko Badanjak	Member of the Board - Executive Director Business Segment Refining and Wholesale
Josip Petrović	Member of the Board - Executive Director Business Segment Retail Services
Tomislav Thür	Member of the Board - Director Corporate Processes Function
Zalán Bács	Member of the Board - Director Corporate Services Function

Changes Management Board effective from 1 August 2005	
Tomislav Dragičević, ScD	President of the Board
László Geszti	Vice -president of the Board - Executive Director Finance Function
Prof. Mirko Zelić, ScD	Member of the Board - Executive Director Business Segment Exploration and Production
Josip Petrović	Member of the Board - Executive Director Business Segment Refining and Wholesale
Ivan Brusić	Member of the Board - Executive Director Business Segment Retail Services
Tomislav Thür	Member of the Board - Director Corporate Processes Function
Zalán Bács	Member of the Board - Director Corporate Services Function

Darko Markotić, BLL, was the Company Secretary of INA d.d in 2005.

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.

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

Basis of company (INA Matica) financial statements
The Company's financial statements represent the aggregation of the assets and liabilities at 31 December 2005 and of the results for the year then ended of the divisions which comprise the company, as detailed in note 11. All significant inter-divisional transactions and balances are eliminated.

Basis of consolidated (INA Group) financial statements
The consolidated financial statements incorporate the financial statements of INA d.d. (INA Matica) 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 entity so as to obtain benefits from its activities.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to profit and loss in the period of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised. Subsequently, any losses applicable to the minority interest in excess of the minority interest are allocated against the interests of the parent. The Group had no acquisitions during the 2004 and 2005 accounting period.
The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Adoption of new and revised International Financial Reporting Standards

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 January 2005. The adoption of these new and revised Standards and Interpretations has resulted in changes to the Group's accounting policies in the following areas that have affected the amounts reported for the current or prior years:

- goodwill (IFRS 3);

The impact of this change in accounting policy is discussed in detail later in this note.

IFRS 3, Business Combinations

Goodwill

IFRS 3 has been adopted for business combinations for which the agreement date is on or after 31 March 2004.

The option of limited retrospective application of the Standard has not been taken up, thus avoiding the need to restate past business combinations. The Group had no acquisitions during the 2004 and 2005 accounting period. The Group did dispose of their investment in Noble Crosco Drilling Limited in 2005.

IFRS 3 requires that, after reassessment, any excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination should be recognised immediately in profit or loss. IFRS 3 prohibits the recognition of negative goodwill in the balance sheet.

Previously, under IAS 22 (superseded by IFRS 3), the Group released negative goodwill to income over a number of accounting periods, based on an analysis of the circumstances from which the balance resulted. Negative goodwill was reported as a deduction from assets in the balance sheet.
The investment in Noble Crosco Drilling Limited was sold in late July 2005. In accordance with the transitional rules of IFRS 3, the Group has applied the revised accounting policy prospectively from 1 January 2005. Therefore, the change has had no impact on amounts reported for 2004 or prior periods.

The carrying amount of negative goodwill has been derecognised at the transition date. Therefore, the change has no impact on amounts reported for 2004 or prior periods.

The carrying amount of negative goodwill at 1 January 2005 has been derecognised at the transition date. Therefore an adjustment of HRK 44 million is made to opening retained earnings and negative goodwill at 1 January 2005.

In addition, the Group has elected to adopt the amendments to IAS 19 Employee Benefits issued in December 2004 in advance of their effective date of 1 January 2006. The impact of these amendments has been to expand the disclosures provided in these financial statements in relation to the Group's defined benefit retirement benefit plan (see note 24).

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

IFRS 6 Exploration for and Evaluation of Mineral Resources

IFRIC 3 Emission Rights

IFRIC 4 Determining whether an Arrangement contains a Lease

IFRIC 5 Right to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

IFRIC 6 Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment

IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies

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

Changes in accounting policies and correction of prior period error

Change in accounting policy: Accounting for geological and geophysical (G&G) costs

During 2005 the Company changed its accounting policy applicable to license and data provision costs and costs associated with geological and geophysical activities where the costs are now charged to the period in which they are incurred. This change in accounting policy is in accordance with the U.S. GAAP approach and the accounting policy currently applied by the Company's strategic investor MOL. Until 31 December 2004 all such costs were accounted for using the U.K. GAAP method, initially capitalized as intangible oil and gas assets pending the determination of the commercial viability of the relevant oil and gas properties.

The change in accounting policy has been retroactively applied, and the affected prior-year balances as at 31 December 2004 were restated. The effects of the change to the applicable years are presented in the table below.

Correction of prior period error: Capitalisation of unrecorded upstream well costs

Until 1 January 1993, certain oil exploration costs were not capitalised but instead were expensed in the year incurred. As a result, the costs associated to exploration of oil wells were not properly capitalised. In 2005 the Company retroactively revalued the oil and gas exploration costs related to those oil wells which were not properly capitalised. The Company retroactively corrected the related error in 2005 and thus the 2004 financial statements were restated accordingly.
The existing assets on the oil and gas fields were valued using estimations and indexing as part of the valuation of the non-recorded oil and gas properties.
Based on the revaluation, 1,917 oil wells were included in the accounts of INA d.d., 1,905 of which are classified as property and 12 as assets under construction. The effect of the correction of the error on the year 2004 is presented in the tables below.

INA Group consolidated balance sheet Restatement of the opening balance	Intangible assets HRK millions	Property, plant and equipment HRK millions	Retained earnings/ (Accumulated Deficit) HRK millions
Balance at January 1, 2004	**1,376**	**10,234**	**(1,339)**
Depreciation of oil properties	-	(209)	(209)
Depreciation of assets subsequently put to use	-	(13)	(13)
Total correction of prior period error	-	(222)	(222)
Correction of intangible assets for G&G works	(25)		(25)
Correction of tangible assets for G&G works	-	5	5
Corrected taxes for the year 2004	-		5
Total change in accounting policy	(25)	5	(15)
Balance at January 1, 2004 (restated)	**1,351**	**10,017**	**(1,576)**
Transfer of adjusted 2004 profit as at 1 January 2005		-	1,130
Adoption of revised International Financial Reporting Standards	-	-	44
Balance at 31 December 2004	**1,351**	**10,017**	**(402)**
Profit for the period			885
Balance at 31 December 2005			**483**

Changes in accounting policies and correction of prior period error

Matica company balance sheet **Restatement of the opening balance**	**Intangible assets** **HRK millions**	**Property, plant and equipment** **HRK millions**	**Retained earnings / (Accumulated Deficit)** **HRK millions**
Balance at January 1, 2004	**1,364**	**8,545**	**(1,759)**
Depreciation of oil properties	-	(209)	(209)
Depreciation of assets subsequently put to use	-	(13)	(13)
Total correction of prior period error	-	(222)	(222)
Correction of intangible assets for G&G works	(25)	-	(25)
Correction of tangible assets for G&G works	-	5	5
Corrected taxes for the year 2004	-	-	5
Total change in accounting policy	(25)	5	(15)
Balance at January 1, 2004 (restated)	**1,339**	**8,328**	**(1,996)**
Transfer of adjusted 2004 profit as at 1 January 2005	-	-	985
Balance at 31 December 2004	**1,339**	**8,328**	**(1,011)**
Profit for the period			892
Balance at 31 December 2005			**(119)**

Income statement **Restatement of the opening balance**	**INA Group** **HRK millions**	**INA Matica** **HRK millions**
Gross profit for the year ended 31 December 2004	**1,674**	**1,518**
Other cost of material - elimination of G&G costs	(24)	(24)
Depreciation in respect of G&G works	5	5
Impairment provision (Wells) - IAS 36	(107)	(107)
Depreciation of oil wells	(102)	(102)
Depreciation of construction in progress subsequently put to use	(13)	(14)
Correction gross profit for the year ended 31 December 2004	**1,433**	**1,276**
Current and deferred taxes	(308)	(296)
Taxes adjusted by the effect of the G&G works	4	4
Taxes adjusted by the effect of the oil well revaluation	(1)	(1)
Taxes adjusted by subsequently activated investments	2	2
Corrected net profit for the year ended 31 December 2004	**1,130**	**985**

Reporting currency

The company's and group's financial statements are prepared in Croatian Kuna (HRK). The effective exchange rate of the Croatian currency (Kuna) at 31 December 2005 was 7.38 Kuna per 1 Euro and 6.23 Kuna per 1 United States dollar (31 December 2004 - 7.67 Kuna per 1 Euro and 5.64 Kuna per 1 United States dollar). The income statements of INA Group and INA Matica for the years ended 31 December 2005 and 2004 translated (unaudited) into United States dollars at average exchange rates are included as Appendices 1 and 2 to these financial statements respectively. The balance sheets of INA Group and INA Matica at 31 December 2005 and 2004 translated (unaudited) into United States dollars at year end exchange rates are included as Appendices 3 and 4 to these financial statements respectively.

Investments in subsidiaries

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

Investments in associates

An associate is an entity over which the Group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting except when classified as held for sale (see below). Investments in associates are carried in the balance sheet at cost as adjusted by 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 the associates in excess of the group's interest in those associates are not recognised.

Any excess of the cost of acquisition over the Group's share of the fair values of the identifiable net assets of the associate at the date of acquisition is recognised as goodwill.

Any deficiency of the cost of acquisition below the Group's share of the fair values of the identifiable net assets of the associate at the date of acquisition (i.e. discount on acquisition) is credited in profit and loss in the period of acquisition.
Investments in immaterial associate companies are generally recorded at cost less provisions for any impairment.

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

The company's proportion of development expenditure incurred through exploration and production joint venture arrangements is included within tangible fixed assets - oil and gas properties.
Investments in immaterial jointly controlled entities are generally recorded at cost less provisions for any impairment.

Oil and gas properties

Exploration and appraisal costs

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

During 2005 the Company changed its accounting policy applicable to license and data provision costs and costs associated with geological and geophysical activities where the costs are now charged to the income statement period in which they are incurred. Until 31 December 2004 all such costs were initially capitalized as intangible oil and gas assets pending the determination of the commercial viability of the relevant oil and gas properties.

If the prospects are deemed to be commercially viable, such costs are transferred to tangible oil and gas assets. The status of such prospects is reviewed regularly by management.

Fields under development

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

Depreciation

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

Commercial reserves

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

Property, plant and equipment

Property, plant and equipment are shown at historical cost or valuation less accumulated depreciation and any accumulated impairment loss. No provision is made for depreciation of freehold land. Other fixed assets in use (excluding oil and gas properties) are depreciated on a straight-line basis using the following rates:

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

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

Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to income in the period in which the costs are incurred.

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

Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its 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.

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.

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 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 fixed assets are assessed for impairment as described above.

Finance and operating leases

The Company has no financial lease arrangements. No significant new operating lease agreements were entered into during 2005. The company recognises leases payable under operating leases on a straight-line basis over the term of the relevant lease, unless another systematic basis that would represent more appropriately the time framework of the benefits derived by the lessee.

Cash and cash equivalents

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

Debtors and prepayments

Debtors and prepayments are shown at amounts invoiced in accordance with the underlying agreement, order, delivery note and other documents serving as the billing basis, net of allowance for uncollectible amounts. Management provides for doubtful receivables based on a review of the overall ageing of all receivables and a specific review of significant individual amounts receivable.

Inventories

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

- Crude oil is valued at the lower of production or purchase cost (as applicable) and net realisable value based on year-end Platts prices.
- Finished products are valued at the lower of cost and 95% of estimated average sales price, which approximates costs of production.
- Semi-finished products and work in progress are valued at the lower of estimated cost of production and net realisable value based on year-end Platts prices reduced by a commensurate percentage, based on the extent of completion of processing, of estimated average refining and production margins.
- 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.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation

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

Foreign currencies

The individual financial statements of each 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 entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded 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 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 except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also 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, 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. They are recognised outside profit or loss and presented in the statement of recognised income and expense.

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. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net 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 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 is the tax expected to be payable or recoverable 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 recognised to the extent that it is probable that taxable profits will be available against which 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 tax profit nor the accounting profit. Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the 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 is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Trade receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. Otherwise the Group applies a provision against all receivables older than 120 days.

Investments

Investments are classified as available-for-sale and are measured at subsequent reporting dates at fair value. For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the profit or loss for the period. Impairment losses recognised in profit or loss for equity investments classified as available-for-sale are not subsequently reversed through profit or loss. Impairment losses recognised in profit or loss for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss. Investments in immaterial non-consolidated companies are generally recorded at cost less provisions for any impairment.

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.

Financial Liability and Equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis to the profit and loss account using effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade payables

Trade payables are not interest bearing and are stated at their nominal value.

Derivatives

In accordance with IAS 39, 'Financial Instruments: Recognition and Measurement' derivative financial instruments, unless designated as hedges, are carried in the balance sheet at fair value, with changes in the fair value included in the income statement.

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

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

Segmental disclosures

The Group has elected not to disclose segmental information as the Group's equity is not publicly traded.

Provisions for decommissioning and other obligations

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of discounting is material, the amount of the provision is the present value of the expenditures expected to be required to settle the obligation, determined using the estimated risk free interest rate as the discount rate. Where discounting is used, the reversal of such discounting in each year is recognised as a financial expense and the carrying amount of the provision increases in each year to reflect the passage of time.

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

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

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 recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably. Sales are recognised, net of sales taxes and discounts, when delivery of goods or rendering of a service has taken place and the transfer of risks and rewards has been completed. In particular, natural gas sales are recognised on the basis of gas delivered calculated at the prices in force at the time when the sale was made.

3. REVENUE

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

Revenue information - geographical

	INA Group Turnover 2005 HRK millions	INA Group Turnover 2004 HRK millions (restated)	INA Matica Turnover 2005 HRK millions	INA Matica Turnover 2004 HRK millions (restated)
Republic of Croatia	13,690	11,766	13,485	11,281
Former Republic of Yugoslavia	2,910	3,077	1,935	2,168
Within the European Union*	1,558	1,378	3,415	2,289
Rest of the world	2,912	1,767	399	186
	21,070	17,988	19,234	15,924

*Slovenia is member of European Union

4. DEPRECIATION AND AMORTISATION

	INA Group 2005 HRK millions	INA Group 2004 HRK millions	INA Matica 2005 HRK millions	INA Matica 2004 HRK millions
Intangible fixed assets (note 9)	18	15	13	10
Tangible fixed assets (note 10b)	975	986	784	792
	993	1,001	797	802

5. STAFF COSTS

	INA Group 2005 HRK millions	INA Group 2004 HRK millions	INA Matica 2005 HRK millions	INA Matica 2004 HRK millions
Net payroll	1,120	1,011	737	654
Contributions for pensions and health insurance	759	671	521	451
Other payroll related costs	378	287	226	143
	2,257	1,969	1,484	1,248

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

	INA Group 2005 Number	INA Group 2004 Number	INA Matica 2005 Number	INA Matica 2004 Number
Production	6,345	6,475	3,059	3,180
Distribution	4,490	4,480	3,778	3,800
Administration	4,284	4,292	3,031	3,019
Sales and marketing	470	465	63	65
Research and development	400	435	359	380
	15,989	16,147	10,290	10,444

6. INVESTMENT REVENUE

	INA Group 2005 HRK millions	INA Group 2004 HRK millions	INA Matica 2005 HRK millions	INA Matica 2004 HRK millions
Foreign exchange gains	127	300	87	174
Other interest income	41	31	29	26
Dividends	5	11	254	4
Gains on embedded derivatives	5	9	5	9
Interest from financial assets	3	3	3	3
	181	354	378	216

Included in the dividend income of INA Matica for the year 2005 in the amount of HRK 254 million are HRK 249 million of dividend income from INA Group member companies.

7. FINANCE COSTS

	INA Group 2005 HRK millions	INA Group 2004 HRK millions	INA Matica 2005 HRK millions	INA Matica 2004 HRK millions
Foreign exchange losses	310	204	218	95
Interest payable on long-term loans	48	40	35	29
Other interest payable	143	104	142	103
Other financial expenses	17	19	8	2
	518	367	403	229

8. TAXATION

	INA Group 2005 HRK millions	INA Group 2004 HRK millions	INA Matica 2005 HRK millions	INA Matica 2004 HRK millions
Current tax expense	236	313	198	301
Deferred tax (benefit) relating to origination and reversal of temporary differences	25	(10)	25	(10)
Income tax expense for the year	261	303	223	291

Domestic income tax rate is calculated at 20 per cent (2004: 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 and the group are subject to corporate income tax on their taxable profits in Croatia.
The reconciliation of the effective tax rate to the applicable tax rate is as follows:

	2005 INA Group HRK millions	%	2005 INA Matica HRK millions	%
Accounting profit before taxation	1,146	100	1,115	100
Tax at the applicable tax rate (20%)	229	20	223	20
Tax effect of permanent differences	7	1	(25)	(2)
Utilisation of unrecognised deferred tax assets	25	2	25	2
Current tax expense	261	23	223	20

In addition to the income tax expense charged to profit or loss, a deferred tax charge of HRK 24 million has been recognised in equity in the year.

The following are the major deferred tax assets recognised by the Group, and the movements thereon, during the current and prior reporting periods:

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	Total
Balance at 1 January 2004	**21**	**42**	**-**	**-**	**-**	**63**
Reversal of temporary differences	(16)	(18)	(1)	-	-	(35)
Origination of temporary differences	13	39	-	24	13	89
Balance at 31 December 2004	**18**	**63**	**(1)**	**24**	**13**	**117**
Credit to equity for the year	-	24	-	-	-	24
Reversal of temporary differences	(12)	(36)	(4)	(22)	-	(74)
Origination of temporary differences	2	6	-	17	-	25
Balance at 31 December 2005	**7**	**57**	**(5)**	**19**	**13**	**92**

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	Total
Balance at 1 January 2004	**21**	**42**	**-**	**-**	**-**	**63**
Reversal of temporary differences	(16)	(18)	(1)	-	-	(35)
Origination of temporary differences	12	39	-	24	13	88
Balance at 31 December 2004	**17**	**63**	**(1)**	**24**	**13**	**116**
Credit to equity for the year	-	24	-	-	-	24
Reversal of temporary differences	(12)	(36)	(4)	(22)	-	(74)
Origination of temporary differences	2	6	-	17	-	25
Balance at 31 December 2005	**7**	**57**	**(5)**	**19**	**13**	**91**

9. INTANGIBLE ASSETS

	INA Group HRK millions	INA Matica HRK millions
Balance at 31 December 2003	**862**	**849**
Additions	584	579
Determination of provision from prior years	37	37
Disposal of G&G	(23)	(23)
Amortization	(15)	(10)
Value adjustment that effects P&L	(64)	(64)
Transfer to property, plant and equipment	(30)	(29)
Balance at 31 December 2004	**1,351**	**1,339**
Additions	329	324
Amortization	(18)	(13)
Value adjustment that effects P&L	(153)	(153)
Disposals	0	0
Transfer to property, plant and equipment	(958)	(959)
Balance at 31 December 2005	**551**	**538**

10. PROPERTY, PLANT AND EQUIPMENT

a) By business segment

	2005			2004 (restated)		
	Cost or valuation	Accumulated depreciation	Net book value	Cost or valuation	Accumulated Depreciation	Net book value
INA Group	**HRK millions**	**HRK millions**	**HRK millions**	**HRK millions**	**HRK millions**	**HRK millions**
Oil and gas exploration and production, gas storage and oilfield services	30,228	22,788	7,440	27,954	22,200	5,754
Refining and Wholesale	10,793	7,771	3,022	10,310	7,604	2,706
Retail	2,355	1,497	858	2,266	1,403	863
Other	1,370	681	689	1,341	647	694
	44,746	**32,737**	**12,009**	**41,871**	**31,854**	**10,017**

	2005			2004 (restated)		
	Cost or valuation	Accumulated depreciation	Net book value	Cost or valuation	Accumulated Depreciation	Net book value
INA Matica	**HRK millions**	**HRK millions**	**HRK millions**	**HRK millions**	**HRK millions**	**HRK millions**
Oil and gas exploration and production, gas storage and oilfield services	27,091	20,367	6,724	24,862	19,848	5,014
Refining and Wholesale	9,767	7,271	2,496	9,350	7,145	2,205
Retail	2,297	1,444	853	2,209	1,350	859
Other	483	238	245	496	246	250
	39,638	**29,320**	**10,318**	**36,917**	**28,589**	**8,328**

b) By asset type

INA GROUP (HRK millions) **Cost or valuation**	**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 2003	**19,665**	**9,131**	**10,371**	**1,106**	**81**	**40,354**
Additions	1	3	1,723	28	-	**1,755**
Change of estimate in decommissioning costs	106	-	-	-	-	**106**
Transfers	272	355	(739)	112	-	**-**
Disposals	(20)	(75)	(190)	(52)	(7)	**(344)**
Balance at 31 December 2004	**20,024**	**9,414**	**11,165**	**1,194**	**74**	**41,871**
Additions	-	6	1,759	38	-	**1,803**
Change of estimate in decommissioning costs	284	-	-	-	-	**284**
Strategic spare parts and transfer from intangible assets	-	-	1,068	-	-	**1,068**
Transfers	320	486	(850)	44	-	**-**
Disposals	-	(29)	(176)	(57)	(12)	**(274)**
Foreign exchange	-	(3)	(2)	(1)	-	**(6)**
Balance at 31 December 2005	**20,628**	**9,874**	**12,964**	**1,218**	**62**	**44,746**

b) By asset type

INA GROUP (HRK millions) **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 2003	**16,276**	**6,007**	**7,739**	**948**	**54**	**31,024**
Charge for the year	341	202	236	96	1	**876**
Wells depreciation, G&G	204	8	5	-	-	**217**
Impairment losses/ Impairment losses adjustments	(35)	21	3	3	-	**(8)**
Transfers	(56)	6	16	34	-	**-**
Disposals	(19)	(57)	(120)	(53)	(6)	**(255)**
Balance at 31 December 2004	**16,711**	**6,187**	**7,879**	**1,028**	**49**	**31,854**
Charge for the year	412	235	237	90	1	**975**
Additions	-	-	1	1	-	**2**
Strategic spare parts and transfer from intangible assets	-	-	46	1	-	**47**
Impairment losses/ Impairment losses adjustments	73	31	8	6	-	**118**
Transfers	(198)	229	2	(33)	-	**-**
Disposals	(2)	(28)	(162)	(56)	(8)	**(256)**
Foreign exchange	-	(1)	(1)	(1)	-	**(3)**
Balance at 31 December 2005	**16,996**	**6,653**	**8,010**	**1,036**	**42**	**32,737**
Net book value						
At 31 December 2005	**3,632**	**3,221**	**4,954**	**182**	**20**	**12,009**
At 31 December 2004	**3,313**	**3,227**	**3,286**	**166**	**25**	**10,017**

b) By asset type (INA GROUP continued)

Additions to oil and gas properties and assets under construction include own costs capitalised in 2005 of HRK 636 million (2004: HRK 447 million). Included above are assets under construction of HRK 1,960 million (2004: HRK 1,808 million) which are not yet subject to depreciation. Correction of tangible fixed assets at 31 December 2004 was made in the amount of HRK 887 million.

INA MATICA (HRK millions) **Cost or valuation**	**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 2003	**19,665**	**7,459**	**7,765**	**592**	**76**	**35,557**
Additions	1	-	1,485	-	-	**1,486**
Change of estimate in decommissioning costs	106	-	-	-	-	**106**
Transfers	272	341	(683)	70	-	**-**
Disposals	(20)	(47)	(143)	(15)	(7)	**(232)**
Balance at 31 December 2004	**20,024**	**7,753**	**8,424**	**647**	**69**	**36,917**
Additions	-	1	1,602	1	-	**1,604**
Change of estimate in decommissioning costs	284	-	-	-	-	**284**
Strategic spare parts and transfer from intangible assets	-	-	1,068	-	-	**1,068**
Transfers	320	446	(783)	17	-	**-**
Disposals	-	(25)	(172)	(27)	(11)	**(235)**
Balance at 31 December 2005	**20,628**	**8,175**	**10,139**	**638**	**58**	**39,638**

b) By asset type

INA MATICA	Oil and gas properties	Land and buildings	Plant and machinery and assets under construction	Vehicles and office equipment	Collective consumption assets	Total
(HRK millions)						
Accumulated depreciation						
Balance at 31 December 2003	**16,276**	**5,027**	**6,007**	**524**	**54**	**27,888**
Charge for the year	341	151	161	27	1	**681**
Wells depreciation, G&G	204	8	5	-	-	**217**
Impairment losses/ Impairment losses adjustments	(35)	21	3	3	-	**(8)**
Transfers	(56)	7	16	33	-	**-**
Disposals	(19)	(47)	(100)	(17)	(6)	**(189)**
Balance at 31 December 2004	**16,711**	**5,167**	**6,092**	**570**	**49**	**28,589**
Charge for the year	413	186	167	17	1	**784**
Additions	-	-	-	-	-	**-**
Strategic spare parts and transfer from intangible assets	-	-	46	1	-	**47**
Impairment losses/ Impairment losses adjustments	73	31	8	6	-	**118**
Transfers	(198)	207	15	(24)	-	**-**
Disposals	(3)	(24)	(157)	(26)	(8)	**(218)**
Balance at 31 December 2005	**16,996**	**5,567**	**6,171**	**544**	**42**	**29,320**
Net book value						
At 31 December 2005	3,632	2,608	3,968	94	16	**10,318**
At 31 December 2004	3,313	2,586	2,332	77	20	**8,328**

Additions to oil and gas properties include own costs capitalised in 2005 of HRK 29 million (2004: HRK 887 million in respect of corrected balance as at 31 December 2004).

PROPERTY, PLANT AND EQUIPMENT

I) Oil and gas reserves

The ability of the company and the group to realise the net book value of oil and gas properties (see b) above) in the future is dependent upon the extent to which commercially recoverable oil and gas reserves are in place. During the year Naftaplin made an assessment of the quantities of the company's remaining proved developed oil and gas reserves which are commercially recoverable as at 31 December 2005.

II) Ownership of land and buildings

Due to political developments in Croatia since 1990, certain local municipal land registers have not been fully established. The company is in the process of registering, through the local courts in Croatia, its title to land and buildings included in the related balance of HRK 2,539 million in note b) above. To date, no claims have been made against the company concerning its title to these assets.

III) Collective consumption assets

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

IV) Carrying value of refining and marketing fixed assets

At 31 December 2005, the net book values of the company's and group's refining and marketing fixed assets were HRK 3,349 million and HRK 3,880 million, respectively.

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

As part of this review, the Management Board has assessed the carrying values of its refining and wholesale assets with reference to the discounted estimated future net cash flows from the refining and wholesale business, in accordance with the requirements of IAS 36. Based on these cash flow estimates, the Management Board have concluded that the recoverable amount of the refining and wholesale assets, over the long-term, exceeds their net book value, and therefore no impairment has arisen.

The Management Board has also reviewed the company's retail network for indications of any impairment in the carrying values of individual retail outlets on an outlet-by-outlet basis. Previously, the retail network had been considered as a single cash generating unit for impairment purposes. Following this review, the carrying values of a small number of retail outlets were written down to the estimated amount recoverable, resulting in an impairment loss of HRK 45 million (IAS 36) which has been included in 'impairment charges' in the year.

V) Review of residual values

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

vi) Componentization of plant and equipment

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

11. INVESTMENTS IN SUBSIDIARIES

	2005 HRK millions	2004 HRK millions
Investments in share capital of subsidiaries (INA Matica)	**964**	**964**

The company's financial statements comprise the financial statements of the following divisions:
INA Naftaplin (exploration and production)
Rijeka Refinery (Urinj)
Sisak Refinery
Lubricants Mlaka
Wholesale, crude oil procurement & logistic
INA Retail
INA Card
Corporate functions

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

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

Name of company	Activity	Shareholding
Trading and finance		
*Interina d.o.o. Ljubljana, Slovenia	Foreign trading	100%
*INA BH d.d. Sarajevo, Bosnia and Herzegovina	Foreign trading	100%
*Interina d.o.o., Mostar, Bosnia and Herzegovina	Foreign trading	100%
*Interina d.o.o. Skopje, Macedonia (dormant)	Foreign trading	100%
*Interina Holding Ltd, London, UK	Foreign trading	100%
Inter Ina Ltd, London, UK	Foreign trading	100%
Interina GmbH, Frankfurt, Germany (in liquidation)	Foreign trading	100%
*INA Hungary Kft., Budapest, Hungary	Foreign trading	100%
*FPC Ltd, London, UK	Foreign trading	100%
*Holdina (Guernsey) Ltd, Guernsey	Foreign trading	100%
Inter Ina (Guernsey) Ltd, Guernsey	Foreign trading	100%
Holdina d.o.o. Sarajevo, Bosnia and Herzegovina	Foreign trading	100%
Holdina (Cyprus) Ltd, Cyprus	Foreign trading	100%
Holdina (Ireland) Ltd, Ireland	Foreign trading	100%
*Commercina AG, Switzerland (in liquidation)	Foreign trading	100%
*INA d.o.o. Beograd, Serbia and Montenegro (from12 August 2004)	Foreign trading	100%
*Infocentar d.o.o. Zagreb (in liquidation)	Information technology	100%
*Adriagas S.r.l. Milan, Italy	Pipeline project company	100%
*INA Crna Gora d.o.o. Kotor	Foreign trading	100%
*INA Crobenz d.d. Zagreb	Trading	98%
*Petrol d.d. Rijeka	Trading	83%
*INA-Osijek Petrol d.d.	Trading	76%
*Polybit d.o.o. Rijeka (jointly controlled entity)	Oil production and trading	50%

The Group also has representative offices in the following locations:

Moscow, Russia
Tirana, Albania
Damascus, Syria
Cairo, Egypt
Luanda, Angola
Tripoli, Libya
Muscat, Oman
Casablanca, Morocco (dormant)
Baku, Azerbaijan (dormant)
Budapest, Hungary
Tehran, Iran (dormant)
Tunis, Tunisia
Priština, Kosovo
Skopje, Macedonia
Windhoek, Namibia

12. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

INA Group	2005 HRK milions	2004 HRK milions
Joint venture - Noble Crosco Drilling Ltd	-	99
Other investments in associates and joint ventures	58	45
	58	144
INA Matica		
Investments in associates and joint ventures	58	45
	58	45

Joint venture - Noble Crosco Drilling Ltd

Name of company	Activity	Per cent of shareholding held by INA Group
Noble Crosco Drilling Ltd	Platform ownership and drilling services	0 per cent (2004: 50 per cent)

In accordance with IAS 31 "Financial Reporting of Interests in Joint Ventures" the Group income statement includes the difference between 50% of the interest in the cash contributed by the joint venture partner and 50% of the net book value, prior to transfer, of the assets transferred by the Group; this difference being an amount of HRK 51,266 thousand. The remaining difference between the Group's share in the fair value and the net book value of the assets contributed represents negative goodwill which had been credited to other income over the period of the joint venture, based upon the useful life of the assets contributed reduced over time by the amount shown as negative goodwill. This credit partly offset the higher depreciation that arose as a result of the fair value revaluation in the books of the joint venture.

At the end of 2004 investment in Noble Crosco Drilling Ltd increased due to the company's share of profit recorded under the equity method in Crosco International Ltd. (increased value of HRK 23,285 thousand less HRK 15,225 thousand of disposed retained earnings and correction for negative exchange rate difference in the amount of HRK 3,271 thousand), and due to the amortization of negative goodwill in total amount of HRK 2,051 thousand.

In accordance with the transitional rules of IFRS 3, the Group has applied the revised accounting policy prospectively from 1 January 2005. The carrying amount of negative goodwill has been derecognised at the transition date. Therefore, the change has no impact on amounts reported for 2004 or prior periods.

Purchase option in main contract of establishing JV company Noble Crosco Drilling allows for one of the partners to buy 50% of shares of the another side.

Noble Drilling Ltd. sent the purchase order to Crosco International, Ltd and the protocol of sales is signed on 28th of July 2005.
Net effect of sold shares is 73 million Kuna, consisting of net effect of sales in amount of 38 million Kuna, plus dividends paid during 2005. in amount of 35 million Kuna.

	INA Group HRK millions
Investment in joint venture company at 31 December 2003	**93**
Share in 2004 profit	23
Entry of retained earnings	(15)
Foreign currency translation adjustment	(3)
Income from negative goodwill amortization	2
Investment in joint venture company at 31 December 2004	100
Write off negative goodwill 1 January 2005 (IFRS 3)	44
Share in 2005. profit decreased for dividends paid	3
Investment in joint venture company before sales	147
Exchange differences	5
Net value of sold shares	152
Cash received (for sold shares - 31.916 thousand USD)	190
Net effect of sold shares in JV Noble Crosco Drilling (Note 11)	**38**

PROFIT FROM JOINT VENTURE

	2005 Crosco Group HRK millions	2004 Crosco Group HRK millions
Noble Crosco Drilling Ltd. - cash from dividends	35	23
Noble Crosco Drilling Ltd. - net effect of sold shares	38	-
	73	23

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

Name of company	Activity	% shareholding held by INA companies	2005 INA Group HRK millions	2004 INA Group HRK millions
Croplin d.o.o Zagreb	Gas trading	50%	36	23
SOL-INA d.o.o.	Industrial gas production	37%	22	22
Hayan Petroleum Company, Damascus, Syria (since May 2005)	Operating company (oil exploration, development and production)	50%	-	-
INAgip d.o.o. Zagreb	Exploration and production operator (joint venture)	50%	-	-
ED INA d.o.o. Zagreb	Research, development and hydrocarbon production	50%	-	-
Genan Trading Services Co. WLL Doha, Qatar (since August 2005)	Maintenance and technical engineering services	49%	-	-
Belvedere d.d., Dubrovnik	Hotel trade	32%	-	-
Adria LNG Study Company Ltd	Oil exploration	22%	-	-
			58	45

The Company's proportion of development expenditure relating to its corporate exploration and production joint venture INAgip d.o.o. is included within tangible fixed assets, oil and gas properties.

13. INVESTMENTS IN OTHER COMPANIES

INA Group	2005 HRK millions	2004 HRK millions
Investments available for sale	**256**	**211**
Investments up to 20%	30	31
Long-term loans	1	1
Deposits	23	27
Other investments	54	59

INA Matica	HRK millions	HRK millions
Investments available for sale	**256**	**211**
Investments up to 20%	24	17
Long-term loans	1	1
Deposits	22	23
Other investments	47	41

JANAF d.d.

Company available for sale	Activity	% shareholding held by INA	2005 HRK millions	2004 HRK millions
Jadranski Naftovod d.d. (JANAF d.d.)	Pipeline ownership and operations	16.00%	225	179
Adriaoil S.p.A., Milan (until September 2005)	Trade	50%	-	1
OMV Slovenia d.o.o., Koper	Oil trading	7.75%	31	31
			256	**211**

Pursuant to a Government decision of 8 March 2002, the company transferred to the Government 21.37% of the equity in JANAF d.d., reducing the company's investment to 16.00%. As explained in note 31, a substantial portion of the trading income of JANAF d.d. is derived from INA. Value of investment in JANAF d.d. is based on market value of a share noted in the Zagreb Stock Exchange at 31 December 2005. The value of this share at 31 December 2005 was HRK 1,890.

14. LONG-TERM RECEIVABLES

	2005	2004
INA Group	**HRK millions**	**HRK millions**
Amounts receivable from employees for apartments sold	192	202
Other long-term receivables	12	16
	204	218

INA Matica	**HRK millions**	**HRK millions**
Amounts receivable from employees for apartments sold	192	202
Long-term receivables from Proplin	87	68
Long-term receivables from Crosco	37	41
Other long-term receivables	28	36
	344	347

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

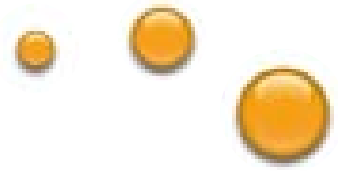
15. INVENTORIES

INA Group	2005 HRK millions	2004 HRK millions
Crude oil	465	468
Gas inventories	129	289
Merchandise	282	76
Raw material	1,058	281
Spare parts, materials and supplies	266	264
Work in progress	550	457
Refined products	669	510
Prepayments for inventories	23	5
	3,442	2,350

INA Matica	HRK millions	HRK millions
Crude oil	465	468
Gas inventories	115	274
Merchandise	262	59
Raw material	938	194
Spare parts, materials and supplies	70	70
Work in progress	549	456
Refined products	622	458
Prepayments for inventories	14	3
	3,035	1,982

There is no material difference between the carrying value and replacement cost, at the balance sheet date, of the stocks of crude oil and refined products of the Company and the Group.
Pursuant to Ordinance on obligatory stock of oil and oil derivates follows that INA is required to maintain obligatory stock of oil and oil derivatives in required quantities.

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



16. OTHER FINANCIAL ASSETS

Trade receivables

	INA Group 2005 HRK millions	INA Group 2004 HRK millions	INA Matica 2005 HRK millions	INA Matica 2004 HRK millions
Trade receivables	2,723	2,443	1,843	1,740
Allowance for doubtful receivables	(419)	(460)	(239)	(283)
	2,304	1,983	1,604	1,457

Other income in 2005 includes an amount of HRK 19 million (2004: HRK 25 million) relating to collection of receivables previously provided against. In 2005, the estimates applicable to allowances for doubtful receivables were changed from 60 days to 120 days. Change in estimate for allowance for doubtful receivables

Change in estimate for allowance for doubtful receivables

An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. The collectability of trade receivables significantly improved compared to the prior years, and therefore resulted in a change in the provisioning policy estimate.

The analysis of doubtful receivables has shown that, after 1 January 2005, as of which HRK 42 million provisions were recorded (of over 60 days from maturity), 28% of outstanding debtors provided against were collected within 40 days, and 46% within 90 days.

The change in the accounting estimate for determining provisions for bad and doubtful receivables has an impact only on the current period result, with the effect of HRK 10 million as presented in the table below.

	Over 60 days HRK millions	Over 120 days HRK millions	Variance HRK millions
Effects of change allowance for doubtful receivables estimate	278	268	10
	278	268	10

Bank balances and cash

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

Credit risk

The Group's principal financial assets are bank balances and cash, trade and other receivables, and investments. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. The Group's credit risk is primarily attributable to its trade and finance lease receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

Other receivables

	INA Group 2005 HRK millions	INA Group 2004 HRK millions	INA Matica 2005 HRK millions	INA Matica 2004 HRK millions
Tax prepayment	166	131	113	80
Other	96	69	81	60
	262	200	194	140

Other current assets

	INA Group 2005 HRK millions	INA Group 2004 HRK millions	INA Matica 2005 HRK millions	INA Matica 2004 HRK millions
Short-term loans and deposits	36	5	23	1
Other	21	10	17	8
	57	15	40	9

17. PREPAYMENTS AND ADVANCES

	INA Group 2005 HRK millions	INA Group 2004 HRK millions	INA Matica 2005 HRK millions	INA Matica 2004 HRK millions
Prepayments for custom taxes, duties and other charges	180	101	180	101
Accrued income	108	-	86	-
Other	53	56	44	44
	341	157	310	145

18. BANK LOANS AND OVERDRAFTS

	INA Group 2005 HRK millions	INA Group 2004 HRK millions	INA Matica 2005 HRK millions	INA Matica 2004 HRK millions
Overdrafts and short term loans	958	345	153	188
Current portion of long-term loans (note 21)	476	462	366	367
	1,434	807	519	555

INA Group	Repayment deadline	Security/ Guarantee	2005 HRK millions	2004 HRK millions Restated
BNP Paribas (US$)	by 28/02/2006	INA d.d. guarantee	209	-
Nova Ljubljanska banka, Ljubljana (SIT)	by 12/06/2006	-	5	7
Bank Tokyo Mitsubishi (US$)	by 30/11/2006	INA d.d. guarantee	169	-
Probanka d.d. (SIT)	by 19/02/2005	-	-	3
Raiffeisenbank Zagreb (EUR, US$ and HRK)	by 25/02/2006	-	17	38
Bank Austria Creditanstalt (US$)	by 20/06/2006		321	-
Zagrebačka banka, Zagreb (EUR, US$,HRK)	by 17/06/2006	-	11	18
Privredna banka Zagreb, Zagreb (HRK)	by 31/12/2006	-	11	5
Bank Muscat (US$)	by 26/01/2006	-	3	9
Hrvatska poštanska banka (EUR and HRK)	by 31/07/2005	-	-	11
Splitska banka (US$, HRK)	by 29/09/2006	-	41	61
Slavonska banka Osijek	by 19/05/2006	-	12	-
Other overdrafts and short term loans			6	5
Current portion of long-term loans (note 21)			110	95
Total INA Matica			519	555
Total INA Group			1,434	807

Interest is payable on the above loans at rates based on LIBOR plus up to 1%. The company uses several short-term bank loans to manage its short-term cash flow cycle, including facilities arranged through Interina Guernsey and Inter Ina Limited, wholly owned subsidiaries (note 11). These loans are typically settled in full every 90 days on a revolving basis.

19. ACCOUNTS PAYABLE AND OTHER SHORT-TERM LIABILITIES

INA Group	2005 HRK millions	2004 HRK millions
Trade payables	3,239	2,202
Production and sales taxes payable and other taxes	526	903
Payroll and payroll taxes	66	159
Other creditors	184	143
	4,015	3,407

INA Matica	2005 HRK millions	2004 HRK millions
Trade payables	1,412	1,139
Production and sales taxes payable and other taxes	456	772
Payroll and payroll taxes	44	105
Other creditors	112	112
	2,024	2,128

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

20. ACCRUALS AND DEFERRED INCOME

INA Group	2005 HRK millions	2004 HRK millions
Accrued interest - long-term loans	21	14
Invoice accrual	110	55
Other	36	37
	167	106

INA Matica	HRK millions	HRK millions
Accrued interest - long-term loans	20	14
Invoice accrual	70	18
Other	25	33
	115	65

21. LONG-TERM LOANS

Long-term loans are denominated in a variety of foreign currencies and are subject to a range of interest rates. The majority of these loans are secured by bills of exchange held by Croatian banks. The loans of the company and the group outstanding at 31 December 2005 and 2004 are analysed as follows:

	Loan Description	Loan Currency	2005 HRK millions	2004 HRK millions
Mizuho / Zagrebačka banka	Syndicates/revolving	US$	267	483
Banco Commerciale Italiana	Pipeline construction	US$	-	59
PBZ - API 80003	Loan	US$	2	2
Erste & Steiermarkische Bank	Loan (equipment)	US$, EUR	37	43
Viktor Lenac	Loan (equipment)	various	12	12
Jugobanka	Loan (equipment)	Yen	16	16
Montana Gas	Gas supply loan	EUR	22	48
Hypovereins Bank	Loan	EUR	-	9
EBRD	Environmental	EUR	211	199
Mizuho / PBZ	Syndicates/revolving	US$	405	141
			972	1,012
Payable within 1 year			(366)	(367)
Total long-term loans - INA Matica			606	645
Other long-term Group loans			252	292
Payable within 1 year			(110)	(95)
Total long-term loans - INA Group			748	842

	Weighted average interest rate	Weighted average interest rate		
	2005	2004	2005	2004
INA Matica	%	%	HRK millions	HRK millions
Bank loans in US$	3.70	2.59	694	706
Bank loans in EUR	4.69	4.37	261	289
Bank loans in Yen	5.17	5.17	16	16
Bank loans in DKK	2.75	2.75	1	1
Total			972	1,012
Payable within 1 year			(366)	(367)
Total long-term loans - INA Matica			606	645
INA Group				
Bank loans in US$	4.29	3.21	936	998
Bank loans in EUR	4.69	4.37	271	289
Bank loans in Yen	5.17	5.17	16	16
Bank loans in DKK	2.75	2.75	1	1
Total			1,224	1,304
Payable within 1 year			(476)	(462)
Total long-term loans - INA Group			748	842

The maturity of loans may be summarised as follows:

	INA Group 2005 HRK millions	INA Matica 2005 HRK millions	INA Group 2004 HRK millions	INA Matica 2004 HRK millions
Current portion of long-term debt	476	366	462	367
Maturity one to two years	565	448	485	322
Maturity two to three years	55	50	218	184
Maturity three to four years	53	51	44	44
Maturity four to five years	42	38	45	45
Maturity over five years	33	19	50	50
Total	1,224	972	1,304	1,012

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

	INA Group HRK millions	INA Matica HRK millions
At 31 December 2004	1,304	1,012
New borrowings raised	322	288
Amounts repaid	(480)	(379)
Foreign exchange losses	78	51
At 31 December 2005	1,224	972
Payable within 1 year (included within bank loans and overdrafts - note 17)	(476)	(366)
Payable after more than 1 year	**748**	**606**

The principal long-term loans outstanding at 31 December 2005 and the principal new loans drawn down and repaid during 2005 were as follows:

MIZUHO Corporate Bank LTD and Zagrebačka banka

During 2002, the company entered into a long-term financing arrangement with MIZUHO Corporate Bank LTD and Zagrebačka banka. The loan is denominated in US$ and at 31 December 2005 the loan balance was 42.8 million (HRK 267 million). This loan is repayable in seven equal half yearly instalments and bears interest of 6% at LIBOR plus 1.3 % annually. The last instalment is due on 22 July 2006.

Privredna banka Zagreb

Remaining INA's long-term liabilities toward Privredna Bank amount to HRK 2.3 million and represent a debt under the Refinanced Bonds Agreement for the issue of API bonds. The debt is dormant and will be refinanced. Out of a total loan balance of US$ 375 thousand US$ 273 thousand have become due.

Erste & Steiermaerkische Bank, Viktor Lenac and Jugobanka

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

Loans from Jugobanka were used for the purchase of material and equipment. The balance outstanding at 31 December 2005 was HRK 5.8 million. Interest on these loans is paid at a fixed rate of 4.90% and 5.30% . Loans are agreed with creditors under Paris Club's conditions.

Banca Intesa and Hypovereinsbank

These loans were early repaid in June 2005, with US$ 6 million in respect of Banca Intesa and US$ 965 thousand in respect of Hypovereinsbank.

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.

MIZUHO Corporate Bank LTD and Privredna Banka Zagreb

In August 2004 the Company concluded a syndicated long-term loan contract with Mizuho Corporate Bank Ltd in the amount of US$ 400 million for a five-year term. Until 31 December 2005 US$ 65 million (HRK 405 million) were drawn. The Company will use the entire loan facility for general financing purposes. The loan is repayable in semi-annual instalments, commencing from 23 August 2007, at an interest rate six-month Libor plus 0.7 percentage points.

22. OTHER LONG-TERM LIABILITIES

INA Group	2005 HRK millions	2004 HRK millions
Liabilities to Government for sold apartments	106	112
Deferred income for sold apartments	56	63
Other long-term liabilities	-	3
	162	178

INA Matica	2005 HRK millions	2004 HRK millions
Liabilities to Government for sold apartments	106	112
Deferred income for sold apartments	56	63
	162	175

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

23. PROVISIONS

(HRK millions)

INA Group	Decommi-ssion Charges	Tax authority claims	Legal claims	ENI project claims	Redun-dancy costs	Tax obligation claims of Holdina Sarajevo	Other	Total
At 31 December 2004	989	144	143	120	145	55	49	1,645
Charge for the year	90	49	5	93	32	-	10	279
Effect of change in estimates, capitalised	283	-	-	-	-	-	-	283
Provision utilised during the year	(58)	-	(7)	(120)	(109)	(2)	(3)	(299)
At 31 December 2005	1,304	193	141	93	68	53	56	1,908

(HRK millions)

INA Matica	Decommi-ssion Charges	Tax authority claims	Legal claims	ENI project claims	Redun-dancy costs	Other	Total
At 31 December 2004	989	144	143	120	145	21	1,562
Charge for the year	90	49	5	93	24	2	263
Effect of change in estimates, capitalised	283	-	-	-	-	-	283
Provision utilised during the year	(58)	-	(7)	(120)	(109)	(1)	(295)
At 31 December 2005	1,304	193	141	93	60	22	1,813

	INA Group 2005 HRK millions	INA Group 2004 HRK millions	INA Matica 2005 HRK millions	INA Matica 2004 HRK millions
Analysed as:				
Current liabilities	149	202	134	202
Non-current liabilities	1,759	1,443	1,679	1,360
	1,908	1,645	1,813	1,562

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 fixed assets. Subsequent adjustments to the provision arising from changes in estimates are also treated as an adjustment to the cost of the fixed asset and thus dealt with prospectively in the income statement through future depreciation of the asset. As of 31 December 2005, the Company recognised a decommissioning provision for 47 of those fields.

Tax authority claims

The balance sheets of the Group and the Company include an accrued provision of HRK 144 million from the year 2003 relating to a sales tax assessment issued by the Croatian tax authorities with respect to certain volumetric losses arising during normal production processes at one of the company's refineries in Croatia. Whilst this liability has been recognised, the Management Board made a complaint to the secondary liability Tax authorities to appeal against this sales tax assessment in terms of both its nature and its amount.

Legal claims

The Company has provided for legal contingencies against them to which the Company has determined that a negative outcome is expected against them.

Some of the most significant provisions are:

„Veronika", d.o.o., Zagreb

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

„Katran", d.d., Zagreb

The case filed by Katran", d.d., Zagreb amounts to HRK 14,million. The plaintiff filed a legal action for reimbursement of damage under the sales contract for bitumen as specified in the contract. The plaintiff claims that the defendant charged the goods at a price significantly higher then the contract price and that the delivery of the goods was conditioned by providing advance payments. The legal action is expected to be completed within a year, i.e. after an expert witness is heard, who will prepare the findings. According to the expert witness, the plaintiff overpaid HRK 3 million for the bitumen delivered by MGP, given that the bitumen was paid at higher prices from those charged by the defendant. Therefore, it is not unlikely that the court could acknowledge the claim of the plaintiff.

Uljanik Pula

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

- Uljanik Brodogradilište, d.d.
- Uljanik Strojogradnja, d.d. i
- 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 plaintiffs 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. Strojogradnja, d.d. seeks reimbursement of damage due to a higher level of scrap and payments made to employees during the waiting period; and Uljanik Tesu, d.d. claims indemnification for payments made to the workers for the waiting period.

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

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

ENI project claims

On February 27, 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.

Redundancy costs

The provision for redundancy payments is based on a 2004 Management Board decision. The Company made a schedule on redundancy costs in period from 2005 to 2007, for employees who have a right to realise old-age pension or premature retirement by which the pension can be bought and retirement benefits realised, and for invalid and other workers with no right to be pensioned, but are willing to leave the company with benefit compensation.
Accordingly company recorded HRK 36 million as short-term provisions for those costs in year 2005 and HRK 24 million as long-term provisions.

Tax obligation claims of Holdina Sarajevo

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

24. PENSIONS AND RETIREMENT BENEFIT SCHEMES

Defined Benefit schemes

According to the Collective Agreement the Company and Group have obligation to pay jubilee awards, retirement and other benefits to employees. The Company and Group operate defined benefit schemes for qualifying employees. Under the schemes, the employees are entitled to retirement benefits of a fixed amount of HRK 8.000 upon retirement.
No other post-retirement benefits are provided.
Jubilee awards are paid out according to the following fixed amounts and anniversary dates:
- HRK 1,500 for 10 years of service
- HRK 2,000 for 15 years of service
- HRK 2,500 for 20 years of service
- HRK 3,000 for 25 years of service
- HRK 3,500 for 30 years of service
- HRK 4,000 for 35 years of service
- HRK 5,000 for 40 years of service.

In respect of the Group's personnel who are employed in Croatia, such social payments as are required by the authorities are paid by the respective Group companies. These contributions form the basis of social benefits payable out of the Croatian national pension fund to Croatian employees upon their retirement.
The actuarial valuations of the present value of the defined benefit obligation were carried out at 31 December 2005 by I.A.C.T.A. Actuarial Consulting Ltd. The present value of the defined benefit obligation, the related current service cost and past service cost were measured using the projected unit credit method.

	Valuation at 2005	2004
Key assumptions used:		
Discount rate	5.0%	6.0%
Turnover rate	2.5%	3.5% - 4.0%
Mortality table	HR2004 70%	N/A
Average expected remaining working lives (years)	17	N/A

Amounts recognised in income in respect of these defined benefit schemes are as follows:

	INA Matica 2005 HRK millions	INA Matica 2004 HRK millions
Current service cost	2	2
Interest cost	3	2
Expected return on scheme assets	-	-
Past service cost	-	-
Net actuarial (gain) loss recognized in year	2	(5)
	7	(1)

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 2005 HRK millions	INA Group 2004 HRK millions	INA Matica 2005 HRK millions	INA Matica 2004 HRK millions
Present value of defined benefit obligations	78	67	53	45
Liability recognised in the balance sheet	78	67	53	45

This amount is presented in the balance sheet as follows:	INA Group 2005 HRK millions	INA Group 2004 HRK millions	INA Matica 2005 HRK millions	INA Matica 2004 HRK millions
Current liabilities	7	11	5	8
Non-current liabilities	71	56	48	37
	78	67	53	45

Movements in the present value of defined benefit obligations in the current period were as follows:

	INA Matica 2005 HRK millions	INA Matica 2004 HRK millions
At 1 January	46	46
Service cost	2	2
Interest cost	3	2
Actuarial gains and losses	11	1
Benefits paid	(9)	(6)
At 31 December	53	45

25. SHARE CAPITAL

	INA Group and INA Matica 2005 HRK millions	INA Group and INA Matica 2004 HRK millions
10 million shares (HRK 900 each)	9,000	9,000

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

26. OTHER RESERVES

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

Movements on reserves during the year were as follows:

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

INA Matica	Combined reserves at 31 December 1993 HRK millions	Other reserves HRK millions	Total HRK millions
At 31 December 2004	1,667	285	1,952
At 31 December 2005	**1,667**	**285**	**1,952**

27. RETAINED EARNINGS

	INA Group Retained earnings/ (Losses brought forward)	**INA Matica Retained earnings/** (Losses brought forward)
Balance at 1 January 2004	(1,339)	(1,759)
Correction of prior-year error	(222)	(222)
Effect of changes in the accounting policies	(15)	(15)
Balance at 1 January 2004 (restated)	(1,576)	(1,996)
Net profit for the year	1,130	985
Balance at 1 January 2005	(446)	(1,011)
Adoption of revised International Financial Reporting Standards	44	-
Balance at 1 January 2005 (restated)	(402)	(1,011)
Net profit for the year	885	892
At 31 December 2005	483	(119)

Details of changes in accounting policies and Adoption of revised International Financial Reporting Standards in the year are set out in note 2.

28. MINORITY INTERESTS

	INA Group HRK millions
At 31 December 2004	6
At 31 December 2005	**6**

29. 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 18.

Investment in refining assets to comply with new standards for fuels

In 2005, a temporary investment unit for the modernisation of refinery operations was established based upon a Company management decision. The Company is committed to a programme of capital investment in its refineries in order to enable them to continue to produce fuels which comply with increasingly stringent environmental standards in the group's key markets.

The tasks of the investment unit and its teams include managing modernisation projects at the Sisak and Rijeka Refineries. The ultimate objective of the programme is to meet the European quality standards applicable to refinery products until specified effective dates. The construction of new plants and the modernisation of the existing ones will significantly expand the quantitative capacities of the refineries, as well as improve the product quality.

For the purposes of the implementation of the refinery modernisation project, 5 contracts were concluded with vendors as at 31 December 2005, worth HRK 179 million.

30. CONTINGENCIES

Environmental matters

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

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

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

Disposal of Siberian Energy Investments Limited and White Nights

The Group sold SEIL (and with it White Nights) in July 2002 to Personal and Business Solutions. As at the prior year end, approximately USD $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 lease of property used in White Night's operations).

The USD $20 million had been held in escrow pending resolution of the dispute. During 2005 it was agreed by both parties to the dispute that USD $10 million USD of the amount in escrow would be released and paid to Holdina. This amount plus accrued interest of $20 thousand was received on 8 August 2005. The Group intend to continue legal proceedings in order to recover the remaining USD $10 million, however at 31 December 2005 there are no firm dates for when a hearing of the claim will take place.

31. RELATED PARTY TRANSACTIONS

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

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

Trading transactions

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

INA Matica	Sales of goods		Purchase of goods		Amounts owed by		Amounts owed to	
Business partner	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
	HRK millions	**HRK millions**	**HRK millions**	**HRK millions**	**HRK millions**	**HRK millions**	**HRK millions**	**HRK millions**
Foreign related companies								
Interina Ltd Guernsey	2,064	1,189	989	686	85	115	164	-
Holdina Sarajevo	453	302	-	-	66	36	1	1
Interina d.o.o. Mostar	222	172	-	-	41	32	-	-
Interina d.o.o. Ljubljana	70	130	-	-	15	26	-	-
Interina Ltd London	71	202	8,855	5,442	-	-	2,056	613
Domestic related companies								
Crosco Group	19	11	422	478	7	6	104	127
Osijek Petrol d.d.	948	104	-	-	120	17	1	1
Crobenz d.d. Zagreb	602	209	-	-	59	43	1	1
Proplin d.o.o. Zagreb	389	316	111	165	69	68	11	19
STSI d.o.o. Zagreb	24	6	332	353	7	9	193	115
Maziva Zagreb d.o.o. Zagreb	35	27	53	48	23	14	23	15
Companies available for sale								
JANAF d.d. Zagreb	-	-	51	49	-	-	-	
Companies controlled by the State								
Croatian Railways	138	116	35	33	53	53	8	5
Croatian Electricity (HEP)	806	964	112	106	222	132	10	12
Croatian Telecom	3	3	23	22	3	3	2	1
Croatia osiguranje	1	1	45	34	-	-	2	2
Croatian Post (Hrvatska pošta)	1	1	4	5	2	2	1	1
MORH	64	58	-	-	33	20	-	-
Hrvatske šume	10	14	1	-	7	8	-	-
Jadrolinija	96	106	3	3	24	31	1	-
Narodne novine	-	-	15	14	-	-	6	6
Hrvatska radio televizija	-	-	4	1	-	-	2	-
Plovput	-	-	-	-	-	-	-	-
Croatia Airlines	169	102	-	-	19	14	-	-

Sales of goods to related parties were made at the Group's usual list prices, less various discounts dependent upon the relationships between the parties. Purchases were made at market price discounted to reflect the relationships between the parties. The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. Amounts owed by related parties are net of allowance for doubtful accounts

Compensation of key management personnel

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

	INA Matica 2005 HRK millions	INA Matica 2004 HRK millions
Short-term employee benefits	34	27
Termination bonuses	23	-
Total:	**57**	**27**

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

Based upon signed representations in connection with the related party disclosure requirements, 47 employees of INA d.d. declared that none of their close family members of the INA d.d. management team had any interest with INA d.d. that would enable them to benefit from any favourable influence over the entity, in either 2005 or 2004.

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 11), presented consolidated 2005 revenue in the amount of HRK 1,218 million (2004: HRK 1,263 million), of which HRK 422 million (2004: HRK 478 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 11).

The Company remains the major customer of its associated company JANAF d.d., in which it has a holding of 16.00 % (Note 13). In 2005, approximately HRK 51 million of the associated company's total revenue in the amount of HRK 335 million account for sales revenue in respect of INA Matica as user of the pipeline system of JANAF d.d. (2004: HRK 49 million out of HRK 321 million total revenue).

32. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

Price risk management

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

The group is a net buyer of crude oil which is typically purchased under short term arrangements in United States Dollars at current market prices. Derivatives contracts are used to a very limited extent to reduce the group's exposure to short-term United States Dollar oil price fluctuations, which affect the group's margins and cash flow. At 31 December 2005 and 2004 there were no open derivative contracts.

The Group's largest markets are the Croatian refined products and wholesale gas markets. Except for specific arrangements with certain major customers, prices of refined products and natural gas in Croatia have, historically, been determined in consultation with the Government. Government policy with respect to refined product prices changed significantly, with effect from 18 January 2001, to a regime where prices are adjusted every fifteen days according to an agreed formula based on market (Platts) prices.

The group also imports a significant proportion of its overall gas requirement, the purchase price for which is set on a quarterly basis in United States Dollars. Transport of imported gas to the Croatian border is provided under various long-term agreements at prices set in foreign currencies and escalated according to certain energy and inflation indices. Domestic gas sales prices in Croatia are set under contractual arrangements, which vary according to class of customer. The group does not employ derivative contracts to manage its gas purchase price risk.

Interest rate risk

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

The group has significant long-term borrowings, which incur interest at variable interest rates, which exposes the group to cash flow risk. Details of the interest rate terms which apply to the group's borrowings are provided in note 20.

Foreign exchange risk

The group's functional currency is the Croatian Kuna whereas crude oil purchases, natural gas purchases and long-term financing costs are all denominated in foreign currencies, principally United States Dollars. In addition certain assets and liabilities, principally long-term loans, are denominated in foreign currencies, which are retranslated at the prevailing exchange rate at each balance sheet date. The resulting differences are charged or credited to the income statement but do not affect short-term cash flows. Furthermore, the group's operations in London, Guernsey, Bosnia and Herzegovina and Slovenia report in foreign currencies. The net assets of these subsidiaries are translated at each balance sheet date using the closing rate method and the exchange rate movement has resulted in exchange losses of HRK 42 million (2003: HRK 42 million), which are charged directly to reserves in accordance with IAS 21 (note 24).

Counter-party risk

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

Fair values of financial instruments

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

Fair value is the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced or liquidation sale. Fair values are obtained from quoted market prices and discounted cash flow models as appropriate.

At 31 December 2005 and 2004 the carrying amounts of cash and short-term deposits, accounts receivable, accounts payable and accrued expenses, and short-term borrowings approximated their fair values due to the short-term maturities of these assets and liabilities.

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

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

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 foreign-exchange forward 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 classified as available for sale and are 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 2005 HRK millions	INA Group and INA Matica 2004 HRK millions
Fair value at 1 January	284	275
Financial income relating to the net change in fair value in the year (note 6)	5	9
Fair value at 31 December	**289**	**284**

	INA Matica 2005 HRK millions	INA Matica 2004 HRK millions
Analysed as:		
Current portion	64	149
Non-current portion	225	135
	289	284

33. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Board and authorised for issue on 17 rch 2006.
Signed on behalf of the Company on 17 March 2006:

T. Dragičević

L. Geszti

INA GROUP
CONSOLIDATED INCOME STATEMENT

31 December 2005
translated into United States Dollars (unaudited)

APPENDIX 1

	2005 USD millions	2004 Restated USD millions
Sales revenue		
a) Domestic	2,301	1,948
b) Exports	1,240	1,030
Total sales revenue	3,541	2,978
Income from own consumption of products and services	107	74
Other operating income	93	81
Total operating income	3,741	3,133
Changes in inventories of finished products and work in progress	85	17
Cost of raw materials and consumables	(1,853)	(1,373)
Depreciation and amortisation	(167)	(166)
Other material costs	(370)	(336)
Service costs	(169)	(158)
Staff costs	(379)	(326)
Cost of other goods sold	(556)	(463)
Impairment charges (net)	(80)	(68)
Provisions for charges and risks	(15)	(25)
Operating expenses	(3,504)	(2,898)
Profit/Loss from operations	237	235
Share in the profit of associated companies	12	4
Investment revenue	31	59
Finance costs	(87)	(61)
Net (loss) / profit from financial activities	(56)	(2)
Profit for the year before taxation	193	237
Current taxes	(40)	(52)
Deferred taxes	(4)	2
Minority interest	-	-
Profit/(Loss) for the year	149	187

INA MATICA
INCOME STATEMENT

31 December 2005
translated into United States Dollars (unaudited)

APPENDIX 2

	2005 USD millions	2004 Restated USD millions
Sales revenue		
a) Domestic	2,266	1,868
b) Exports	966	769
Total sales revenue	3,232	2,637
Income from own consumption of products and services	5	2
Other operating income	63	67
Total operating income	3,300	2,706
Changes in inventories of finished products and work in progress	86	16
Cost of raw materials and consumables	(1,742)	(1,303)
Depreciation and amortisation	(134)	(133)
Other material costs	(314)	(296)
Service costs	(147)	(129)
Staff costs	(250)	(206)
Cost of other goods sold	(523)	(342)
Impairment charges (net)	(74)	(76)
Provisions for charges and risks	(11)	(24)
Operating expenses	(3,109)	(2,493)
Profit/Loss from operations	191	213
Investment revenue	64	36
Finance costs	(68)	(38)
Net (loss) / profit from financial activities	(4)	(2)
Profit for the year before taxation	187	211
Current taxes	(33)	(50)
Deferred taxes	(4)	2
Profit/(Loss) for the year	150	163

INA GROUP
CONSOLIDATED BALANCE SHEET

31 December 2005
translated into United States Dollars (unaudited)

APPENDIX 3

ASSETS	2005 USD millions	2004 USD millions Restated
Non-current assets		
Intangible assets	88	240
Property, plant and equipment	1,928	1,777
Investments in associates and joined ventures	9	26
Investments in other companies	9	10
Long-term receivables	33	39
Derivative financial instruments	36	25
Deferred tax	15	21
Available-for-sale assets	41	37
	2,159	**2,175**
Current assets		
Inventories	552	417
Trade receivables , net	370	352
Other receivables	42	35
Derivative financial instruments	11	26
Other current assets	9	3
Prepayments and advances	55	28
Cash with bank and in hand	60	127
	1,099	**988**
TOTAL ASSETS	**3,258**	**3,163**

INA GROUP
CONSOLIDATED BALANCE SHEET

31 December 2005
translated into United States Dollars (unaudited)

APPENDIX 3

EQUITY AND LIABILITIES	2005 USD millions	2004 Restated USD millions
Capital and reserves		
Share capital	1,693	1,693
Reserves (including retained earnings)	499	350
Translation reserve	(302)	(135)
	1,890	**1,908**
Minority interests	1	1
Total capital employed	**1,891**	**1,909**
Non-current liabilities		
Long-term loans	120	149
Other non-current liabilities	26	32
Employee benefits obligation	12	10
Long-term provisions	283	257
	441	**448**
Current liabilities		
Bank loans and overdrafts	154	61
Current portion of long-term debt	76	82
Accounts payable	520	391
Taxes and contributions	95	188
Other short-term liabilities	30	25
Accruals and deferred income	27	20
Employee benefits obligation	1	2
Short-term provisions	23	37
	926	**806**
TOTAL LIABLITIES	**1,367**	**1,254**
TOTAL EQUITY AND LIABILITIES	**3,258**	**3,163**

INA MATICA
CONSOLIDATED BALANCE SHEET

31 December 2005
translated into United States Dollars (unaudited)

APPENDIX 4

ASSETS	2005 USD millions	2004 USD millions Restated
Non-current assets		
Intangible assets	86	237
Property, plant and equipment	1,656	1,477
Investments in subsidiaries	155	171
Investments in associates and joined ventures	9	8
Investments in other companies	8	7
Long-term receivables	55	62
Derivative financial instruments	36	24
Deferred tax	15	21
Available-for-sale assets	41	37
	2,061	**2,044**
Current assets		
Inventories	487	352
Intercompany receivables	80	68
Trade receivables , net	257	258
Other receivables	31	25
Derivative financial instruments	10	27
Other current assets	7	2
Prepayments and advances	50	26
Cash with bank and in hand	24	37
	946	**795**
TOTAL ASSETS	**3,007**	**2,839**

INA MATICA
CONSOLIDATED BALANCE SHEET

31 December 2005
translated into United States Dollars (unaudited)

APPENDIX 4

EQUITY AND LIABILITIES	2005 USD millions	2004 USD millions Restated
Capital and reserves		
Share capital	1,693	1,693
Reserves (including retained earnings)	344	194
Translation reserve	(314)	(149)
	1,723	**1,738**
Minority interests	-	-
Total capital employed	**1,723**	**1,738**
Non-current liabilities		
Long-term loans	97	115
Other non-current liabilities	26	31
Employee benefits obligation	8	6
Long-term provisions	270	242
	401	**394**
Current liabilities		
Bank loans and overdrafts	25	33
Current portion of long-term debt	59	65
Intercompany payables	434	181
Accounts payable	227	202
Taxes and contributions	80	156
Other short-term liabilities	18	20
Accruals and deferred income	18	12
Employee benefits obligation	1	2
Short-term provisions	21	36
	883	**707**
TOTAL LIABLITIES	**1,284**	**1,101**
TOTAL EQUITY AND LIABILITIES	**3,007**	**2,839**

INA FREE TOLL INFORMATION TELEPHONE **0800 1112**

Registered Office

INA - Industrija nafte d.d. Zagreb
Avenija V. Holjevca 10
10 002 Zagreb, Croatia
p.p. 555
Switchboard: + 385 1 6450 000
ina@ina.hr
www.ina.hr

INA's Subsidiaries in Croatia

CROSCO Integrated Drilling & Well Services Co., Ltd.
U. grada Vukovara 18, 10000 Zagreb, Croatia
Telephone: +385 1 3652 333
Telefax: +385 1 3096 448
info@crosco.com
www.crosco.com

STSI Integrated Technical Services Ltd.
Lovinčićeva bb, 10 000 Zagreb, Croatia
Telephone: +385 1 2381 122
Telefax: +385 1 2450 103
stsi@stsi.hr
www.stsi.hr

Maziva-Zagreb d.o.o.
Radnička cesta 175, 10000 Zagreb, Croatia
Telephone: +385 1 2412 000
Telefax: +385 1 2404 564
maziva@maziva.hr
www.maziva.hr

PROplin d.o.o.
Savska cesta 41/II, 10000 Zagreb, Croatia
Telephone: +385 1 6001-900
Telefax: +385 1 6001-955
info@info.hr
www.proplin.hr

HOSTIN d.o.o.
Ulica grada Vukovara 78,
10 000 Zagreb, Hrvatska, Croatia
Telephone: + 385 1 6155 158
Telefax: + 385 1 6155 159
hostin@zg.htnet.hr
www.hostin.hr

ITR d.o.o.
Šubićeva 29, 10 000 Zagreb, Croatia
Telephone: +385 1 4592 691
Telefax: + 385 1 4617 953

SINACO d.o.o.
Ante Kovačića 1, 44 000 Sisak, Croatia
Telephone: + 385 44 511 119
Telefax: + 385 44 533 303
sinaco@sinaco.hr
www.sinaco.hr

INA's Subsidiaries Abroad

INTERINA d.o.o. Ljubljana
Ljubljana, The Republic of Slovenia
Kotnikova ulica 5
+386 1 30 092 40

INA BH d.d. Sarajevo
Sarajevo, Bosnia and Hercegovina
Azize Šaćirbegović br. 4b
+387 33 276 511
+387 33 712 160

INTERINA d.o.o. Mostar
Mostar, Bosnia and Hercegovina
Ul. kneza Višeslava 8
+387 36 333 512,
+387 36 333 513

INA d.o.o. Beograd
Beograd, Serbia and Montenegro
Partizanske vode 6
+381 11 3975 664

INA-CRNA GORA d.o.o. Kotor
Kotor, Serbia and Montenegro
Dobrota 3
Telephone: +381 82 334 972,
+381 82 334 969,
+381 82 302 004

HOLDINA d.o.o. Sarajevo
Sarajevo, Bosnia and Hercegovina
Ul. Aziza Šaćirbegović 4b
+387 33 27 65 00

ADRIAGAS S.r.l. Milano
Milano, Italy
Corso Matteotti Giacomo 10, CAP 20121
+39 2 77 33 091

INA HUNGARY Co. Ltd.
1025 Budapest, Hungary
Aldas u. 5
+36 1 20 27 094

INTERINA Ltd. London
London, Great Britain
112 Jermyn Street, SW1Y 6LS
+44 20 79 25 01 25

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