INA-INDUSTRIJA NAFTE, d.d.

Offering of 1,500,000 Shares

(subject to an over-allotment option in respect of up to a further 200,000 Shares)

The Republic of Croatia, represented by the Government of the Republic of Croatia (the "Selling Shareholder"), is making available for sale 1,500,000 ordinary shares, each with a nominal value of HRK 900 (the "Shares"), of INA-INDUSTRIJA NAFTE, d.d. ("INA" or the "Company"), a joint stock company incorporated in the Republic of Croatia ("Croatia") in a public offering to (i) Croatian citizens with priority rights and on preferential terms as more fully described under "Plan of Distribution" (the "Preferential Offering") and (ii) to the extent any Shares are not taken up in the Preferential Offering, natural persons, domestic legal persons and foreign investors in Croatia, without priority rights and preferential terms (the "Non-Preferential Offering" and, together with the Preferential Offering, the "Offering"). Any remaining Shares that have not been sold in the Non-Preferential Offering by the Selling Shareholder to natural persons, domestic legal persons and foreign investors in Croatia (other than the Managers, as defined below) may be purchased by Raiffeisenbank Austria d.d. (the "Agent") or by Merrill Lynch International or Raiffeisen Centrobank AG (the "Joint Bookrunners" and, together with the Agent, the "Managers") as part of the Non-Preferential Offering, and re-sold, in the form of ordinary shares ("shares") and global depositary receipts ("GDRs" and, together with the Shares, the "Securities") (i) to institutional investors outside the United States in reliance on Regulation S under the Securities Act ("Regulation S") or (ii) in the United States to qualified institutional buyers ("QIBs"), as defined in, and in reliance on, Rule 144A ("Rule 144A") under the U.S. Securities Act of 1933 (the "Securities Act"). The number of Shares being made available for sale in the Offering may be increased pursuant to the exercise of the over-allotment option referred to below.

Raiffeisenbank Austria d.d. is the Agent of the Preferential Offering and the Non-Preferential Offering.

No public trading market currently exists for the Securities. INA has applied to the Croatian Financial Services Supervisory Agency ("HANFA") for approval of the publication of information which INA is required to publish under Article 96 of the Croatian Securities Market Act ("CSMA") upon the listing of INA's ordinary shares on the Official Market (the "Official Market") of the Zagreb Stock Exchange d.d. (the "ZSE") and which is contained in this prospectus. HANFA's approval was issued on 10 November 2006. INA expects the listing of the Shares to become effective on 1 December 2006 and trading in the Shares is expected to commence on the ZSE under the symbol "INA-R-A" on 1 December 2006.

In relation to the Shares which the Joint Bookrunners may re-sell in the form of GDRs, applications have also been made: (i) to the U.K. Financial Services Authority (the "FSA"), in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "FSMA"), for a listing of 4,800,000 GDRs, consisting of up to 1,500,000 GDRs to be issued on the Closing Date, up to 200,000 additional GDRs to be issued pursuant to the over-allotment option, as described herein, and up to 3,100,000 additional GDRs to be issued from time to time against the deposit of Shares with Citibank, N.A., as depositary, to be admitted to the official list (the "Official List") of the U.K. Listing Authority (the "UKLA") and (ii) to the London Stock Exchange plc (the "London Stock Exchange") for such GDRs to be admitted to trading on the London Stock Exchange's EEA Regulated Market (as defined in the Investment Services Directive 93/22/EC) (the "Regulated Market"). Application has also been made to have the Rule 144A GDRs (as defined in this prospectus) designated as eligible for trading on the PORTAL Market of the NASDAQ Stock Market, Inc. ("PORTAL"). Admission of the GDRs to the Official List and to trading on the Regulated Market is expected to take place at 8:00 a.m. on or about 1 December 2006. No application is currently intended to be made for the GDRs to be admitted to listing or dealt with on any other exchange.

Investing in the Shares and GDRs involves risks. See "Risk Factors" beginning on page 11 for a discussion of factors prospective investors should consider before making an investment decision with respect to the Shares and GDRs.

Offer Price: HRK 1,690 per Share

THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT, AND, SUBJECT TO CERTAIN EXCEPTIONS, MAY NOT BE OFFERED OR RE-SOLD WITHIN THE UNITED STATES. THE SECURITIES ARE BEING OFFERED AND RE-SOLD OUTSIDE THE UNITED STATES IN RELIANCE ON REGULATION S AND WITHIN THE UNITED STATES TO QIBs IN RELIANCE ON RULE 144A. PROSPECTIVE PURCHASERS ARE HEREBY NOTIFIED THAT SELLERS OF THE SECURITIES MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A. FOR A DESCRIPTION OF THESE AND CERTAIN FURTHER RESTRICTIONS ON OFFERS, SALES AND TRANSFERS OF THE SECURITIES AND THE DISTRIBUTION OF THIS PROSPECTUS, SEE "PLAN OF DISTRIBUTION" AND "TRANSFER RESTRICTIONS".

The Selling Shareholder has granted to the Joint Bookrunners, on behalf of the Managers, an over-allotment option (the "over-allotment option"), exercisable, subject to demand in the Preferential Offering, on one occasion only until 30 days after the announcement of the Offer Price (as defined below) on 28 November 2006 (the "Pricing Date"), to purchase up to 200,000 additional Shares in the Non-Preferential Offering, in the form of Shares and GDRs, at the Offer Price and on the terms and conditions of the Offering, solely to cover over-allotments, if any, and to cover short positions relating to stabilization activities.

The Shares purchased in the Offering are expected to be delivered by the Selling Shareholder to the purchasers, which may include the Managers, by means of book-entry registration to securities accounts maintained by the Central Depository Agency (the "CDA"), the settlement center for the ZSE, against payment in Zagreb, Croatia on 1 December 2006 (the "Closing Date"). Delivery of GDRs sold outside the United States in offshore transactions in reliance on Regulation S ("Regulation S GDRs") will take place on or about the Closing Date through Euroclear Bank S.A./N.V. as operator of the Euroclear System ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream"). Delivery of GDRs sold in the United States to QIBs ("Rule 144A GDRs") will take place on the Closing Date through the facilities of The Depository Trust Company of New York ("DTC").

Sole Global Coordinator

Merrill Lynch International

Joint Bookrunners

Merrill Lynch International | **Raiffeisen Centrobank/Raiffeisenbank Austria**

The date of this prospectus is 28 November 2006.

IMPORTANT INFORMATION ABOUT THIS PROSPECTUS

CSMA requires that HANFA approves the information set out in Articles 20 and 21 of the CSMA, which INA is required to publish in accordance with Article 96 of the CSMA, upon the listing of the ordinary shares of INA on the Official Market of the ZSE, and which is contained in this prospectus. HANFA approved the publication of the required information in this prospectus on 10 November 2006.

This prospectus, including the financial information and the appendices included herein, comprises a prospectus in compliance with the prospectus rules made under Section 73A of the FSMA by the UKLA (the "Prospectus Rules"), for the purpose of giving information with regard to INA and its subsidiaries and the GDRs in connection with the application for admission of the GDRs to the Official List of the UKLA and to trading on the Regulated Market.

INA accepts responsibility for the information contained in this prospectus, and, having taken all reasonable care to ensure that such is the case, the information contained in this prospectus is, to the best of INA's knowledge, in accordance with the facts and contains no omission likely to affect its import.

In making an investment decision regarding the Securities, investors must rely on their own examination of INA and the terms of the Offering, including the merits and risks involved. Investors should rely only on the information contained in this prospectus. None of INA, the Selling Shareholder or the Managers have authorized any other person to provide investors with different information. If anyone provides different or inconsistent information, it should not be relied upon. The information appearing in this prospectus should be assumed to be accurate as of the date on the front cover of this prospectus only. INA's business, financial condition, results of operations and the information set forth in this prospectus may have changed since that date.

None of the information in this prospectus should be considered investment, legal or tax advice. Investors should consult their own counsel, accountant and other advisors for legal, tax, business, financial and related advice regarding purchasing the Shares and GDRs. None of INA, the Selling Shareholder or the Managers make any representation to any offeree or purchaser of the Shares and GDRs regarding the legality of an investment in the Shares and GDRs by such offeree or purchaser under appropriate investment or similar laws.

Merrill Lynch International, Raiffeisen Centrobank AG and Raiffeisenbank Austria d.d. and their affiliates and any person acting on their behalf are not responsible for, and are not making any representation or warranty, express or implied, concerning INA's future performance or the accuracy or completeness of this prospectus.

Merrill Lynch International, Raiffeisen Centrobank AG and Raiffeisenbank Austria d.d. are acting exclusively for the Selling Shareholder and no one else in connection with the Offering and will not be responsible to any other person for providing the protections afforded to their respective clients or for providing advice in relation to the Offering.

Information relating to markets, market size, market share, growth rates and penetration rates and other industry data pertaining to INA Group's business contained in this prospectus has been obtained from internal surveys, industry sources and publicly available information. The main sources for information on the oil and natural gas industry were industry publications such as the BP Statistical Review of World Energy, the Croatian Central Bureau of Statistics, Oil and Gas Journal and other publicly available sources. Croatian macroeconomic data was extracted from sources including the journal of the Croatian Energy Institute, "Hrvoje Požar" and the EIU. INA accepts responsibility for having correctly reproduced information obtained from publications or public sources, and, so far as INA is aware and has been able to ascertain from information published by those industry publications or public sources, no facts have been omitted which would render the reproduced information inaccurate or misleading. However, INA has not independently verified information obtained from industry and government sources. Certain market share information and other statements in this prospectus regarding the oil and natural gas industry and INA Group's position relative to its competitors are not based on published statistical data or information obtained from independent third parties. Rather, such information and statements reflect INA's best estimates based upon information obtained from trade and business organizations and associations and other contacts within the oil and natural gas industry. Information from INA's internal estimates and surveys has not been verified by any independent sources.

The Selling Shareholder and the Managers reserve the right to reject any offer to purchase the Shares and GDRs in whole or in part and to sell to any prospective institutional investor less than the full amount of the Shares and/or GDRs sought by such investor. However, no valid and binding offers submitted by Croatian citizens with priority rights and preferential terms specified in the decisions of the Government of Croatia dated 14 September 2006, and as further amended, will be rejected, provided that the number of Shares, including the over-allotment option, is sufficient to meet their demand. If the number of Shares, including the over-allotment option, is not sufficient to meet their demand, the number of Shares with respect to which the valid and binding purchase offer of Croatian citizens with priority rights and preferential terms is submitted shall be reduced pro rata in respect of all such offerors, rounded down to the nearest whole Share and the offer, as such, accepted.

In connection with the Offering, each of Merrill Lynch International, Raiffeisen Centrobank AG and Raiffeisenbank Austria d.d. and any affiliate acting as an investor for its own account may take up the Securities and in that capacity may retain, purchase or sell for its own account such securities and any of INA's securities or related investments and may offer or sell such securities or other investments otherwise than in connection with the Offering. Accordingly, references in this document to the Securities being offered or placed should be read as including any offering or placement of securities to Merrill Lynch International, Raiffeisen Centrobank AG and Raiffeisenbank Austria d.d and any affiliate acting in such capacity. Neither Merrill Lynch International, Raiffeisen Centrobank AG nor Raiffeisenbank Austria d.d. intends to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

The distribution of this prospectus and the offer and sale of the Securities may be restricted by law in certain jurisdictions. Investors must inform themselves about, and observe, any such restrictions. See "Description of the Global Depositary Receipts", "Transfer Restrictions" and "Plan of Distribution" elsewhere in this prospectus. Investors must comply with all applicable laws and regulations in force in any jurisdiction in which they purchase, offer or sell the Securities or possess or distribute this prospectus and must obtain any consent, approval or permission required for the purchase, offer or sale of the Securities under the laws and regulations in force in any jurisdiction in which any purchase, offer or sale is made. The Selling Shareholder is not making an offer outside Croatia and the Managers are not making an offer to sell the Securities or soliciting an offer to buy any of the Securities to any person in any jurisdiction except where such an offer or solicitation is permitted.

The Securities have not been approved or disapproved by the U.S. Securities and Exchange Commission (the "SEC"), any state securities commission in the United States or any other U.S. regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the Offering of the Securities or the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense in the United States.

NOTICE TO EEA INVESTORS

This prospectus has been prepared on the basis that all offers of Shares or GDRs, other than offers of GDRs contemplated in this prospectus in the United Kingdom once the prospectus has been approved by the FSA and published in accordance with the Prospectus Directive (2003/71/EC), as implemented in the United Kingdom, will be made pursuant to an exemption under the Prospectus Directive, as implemented in member states of the European Economic Area ("EEA"), from the requirement to produce a prospectus for offers of securities. Accordingly, any person making or intending to make any offer within the EEA of Shares or GDRs should only do so in circumstances in which no obligation arises for INA or any of the Managers to produce a prospectus for such offer. None of INA or the Managers have authorized or do authorize the making of any offer of the Securities through any financial intermediary, other than offers made by the Managers which constitute the final placement of Shares and GDRs contemplated herein.

Each person in a Member State of the EEA that has implemented the Prospectus Directive (each, a "Relevant Member State") other than, in the case of the first bullet point below, persons receiving offers contemplated in the Prospectus in the United Kingdom, who receives any communication in respect of, or who acquires any of the Securities under, the offers contemplated in this prospectus will be deemed to have represented, warranted and agreed to and with each Manager and the Company that:

- it is a qualified investor within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive; and
- in the case of any Securities acquired by it as a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive:
    - the Securities acquired by it in the Offering have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Relevant Member State other than qualified investors, as that term is defined in the Prospectus Directive, or in circumstances in which the prior consent of the Joint Bookrunners has been given to the offer or resale; or
    - where Securities have been acquired by it on behalf of persons in any Relevant Member State other than qualified investors, the offer of those Securities to it is not treated under the Prospectus Directive as having been made to such persons.

For the purposes of this representation, the expression an "offer to the public" in relation to any Securities in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any Securities to be offered so as to enable an investor to decide to purchase or subscribe for the Securities, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State, and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ("RSA 421-B") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

STABILIZATION

In connection with this Offering, Raiffeisenbank Austria d.d., as stabilizing manager with respect to the Shares on the ZSE, or its agents may, after consultation with and the approval of the Joint Bookrunners, and Merrill Lynch International, as stabilizing manager with respect to the GDRs on the London Stock Exchange, or its agents may, for a limited period after the announcement of the Offer Price, over-allot or effect transactions in the Shares or the GDRs, as the case may be, with a view to supporting the market price of the Shares or the GDRs, as the case may be, at a level higher than that which might have otherwise prevailed in the open market. However, the stabilizing managers or such agents have no obligation to do so. Such stabilization, if commenced, may begin on the date of adequate public disclosure of the Offer Price, may be effected in the over-the-counter market or otherwise and may be discontinued at any time, but in no event later than the over-the-counter market or otherwise and may be discontinued at any time, but in no event later than 30 calendar days after the date of such adequate public disclosure of the Offer Price. The Managers do not intend to disclose the extent of any such stabilization transactions otherwise than in accordance with any legal or regulatory obligation to do so.

In connection with the Offering, Merrill Lynch International, on behalf of the several Managers, may over-allot GDRs as permitted by applicable law. For the purposes of allowing the Managers to cover short positions resulting from any such over-allotments and/or from sales of GDRs effected by them during the stabilizing period, the Selling Shareholder has granted the Joint Bookrunners, on behalf of the several Managers, the over-allotment option pursuant to which the Joint Bookrunners, on behalf of the several Managers, may require the Selling Shareholder to sell additional Shares at the Offer Price, which will be deposited with the Depositary (as defined below) and issued in the form of GDRs. The over-allotment option is exercisable in whole or in part upon written notice by the Joint Bookrunners, on behalf of the Managers, on one occasion only, until 30 days after the Pricing Date. Any GDRs made available pursuant to the over-allotment option will be issued at the same price, terms and conditions as the GDRs being issued in the Offering and will form a single class for all purposes with the other GDRs.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Presentation of Financial Information

This prospectus includes the audited consolidated financial statements of INA as of and for the years ended 31 December 2003, 2004 and 2005 (the "Audited Financial Statements") and the unaudited condensed consolidated financial statements of INA as of and for the six months ended 30 June 2005 and 2006 (the "Unaudited Financial Statements" and, together with the Audited Financial Statements, the "Financial Statements"). The Audited Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The Unaudited Financial Statements have been prepared in accordance with IAS 34, and include all adjustments (consisting only of normal recurring adjustments) and reclassifications which INA considers necessary for a fair presentation of the information included therein.

The Audited Financial Statements prepared in conformity with IFRS and the Unaudited Financial Statements prepared in conformity with IAS 34 have not been reconciled to US GAAP and this prospectus does not attempt to identify any differences between IFRS and IAS 34, respectively, and US GAAP. It is possible that the net effect of differences between the application of IFRS, and US GAAP may be, individually or in the aggregate, material. If any such reconciliation were performed or an attempt were made to identify relevant differences between IFRS and IAS 34, respectively, and US GAAP as they apply to INA Group, particular financial statement items as presented under US GAAP could vary materially and adversely from the corresponding items as presented under IFRS.

In making an investment decision, potential investors must rely upon their own examination of INA Group, the terms of the Offering and the financial information included in this prospectus, and should consult their own professional advisors for an understanding of the differences between IFRS and US GAAP and how these differences might affect the financial information in this prospectus.

The Audited Financial Statements were audited by Deloitte d.o.o. ("Deloitte"), independent auditors, located at Heinzelova 33, Zagreb. Deloitte's unqualified audit report is set out under "Index to Financial Statements" contained elsewhere herein.

Restatement of Audited Financial Statements

The Audited Financial Statements for 2003 and 2004 have been restated on the basis of the following adjustments, as disclosed in Section 2 of the Accounting Policies note to the Audited Financial Statements:

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

In 2005, INA changed its accounting policy applicable to license and data provision costs and costs associated with geological and geophysical activities, which are now charged to the period in which they are incurred. This change in accounting policy is considered preferable because it is consistent with the US GAAP approach which is widely used by other international oil and gas companies. 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.

The change in accounting policy has been retroactively applied, and the affected prior year balances as of 31 December 2003 and 2004 were restated.

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

Until 1 January 1993, certain oil exploration costs were not capitalized, but were instead expensed in the year incurred. As a result, costs associated with the exploration of oil wells were not properly capitalized. In 2005, INA retroactively capitalized the oil and gas exploration costs related to those oil wells, and the 2003 and 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 have been included in the Financial Statements, 1,905 of which oil wells are classified as property and 12 as assets under construction.

Non-GAAP financial measures

This prospectus includes EBITDA as a measurement of INA Group's operating performance. EBITDA is defined as profit from operations, before the deduction of depreciation and amortization and impairment (net) and provision charges (net). EBITDA serves as an additional indicator of INA Group's operating performance and not as a replacement for measures such as cash flows from operating activities and profit from operations as defined and required under IFRS. INA Group believes that EBITDA is useful to investors as a measure of operating performance because it reflects its underlying operating cash costs. In addition, INA Group believes that EBITDA is a measure commonly used by analysts and investors in the industry in which it operates. Accordingly, INA Group has disclosed this information to permit a more complete analysis of its operating performance. EBITDA, as calculated by INA Group, may not be comparable to similarly titled measures reported by other companies.

Exchange Rate Information

The Financial Statements are prepared in Kuna. Solely for the convenience of the reader, this prospectus presents unaudited translations of certain Kuna amounts into U.S. dollars at the relevant Kuna exchange rate for purchases of U.S. dollars announced by the Croatian National Bank at the end of the relevant period. Unless otherwise stated, any balance sheet data in U.S. dollars derived from INA Group's financial statements are translated for convenience from Kuna into U.S. dollars at the Croatian National Bank exchange rate for the U.S. dollar in effect at the relevant year-end on the date of such balance sheet, or, in the case of income statement data, the average exchange rate for the relevant year. No representation is made that the Kuna or U.S. dollar amounts in this prospectus could have been converted into U.S. dollars or Kuna, as the case may be, at any particular rate or at all.

The following table sets forth, for the periods and dates indicated, the high, low, average and period-end exchange rates for U.S. dollars announced by the Croatian National Bank, expressed as the number of Kuna per U.S. dollar. These rates may differ from the actual rates used in the preparation of the Financial Statements and other financial information appearing in this prospectus.

	Kuna per U.S. dollar			
	High	**Low**	**Average[(1)]**	**Period-end**
Year ended 31 December				
2001	8.75	7.96	8.34	8.36
2002	8.81	7.15	7.86	7.15
2003	7.24	6.12	6.70	6.12
2004	6.41	5.58	6.04	5.64
2005	6.32	5.56	5.95	6.23
Six months ended				
30 June 2006	6.23	5.60	5.95	5.79
Month ended				
30 June 2006	5.79	5.60	5.73	5.79
31 July 2006	5.79	5.65	5.71	5.72
31 August 2006	5.71	5.64	5.68	5.70
30 September 2006	5.87	5.70	5.79	5.83
31 October 2006	5.93	5.79	5.86	5.79
November 2006 (through 24 November)	5.80	5.69	5.74	5.69

Source: Croatian National Bank

Note:

(1) The weighted average of the exchange rates on each day of each full month or part thereof during the relevant period.

Conversion Factors

INA Group maintains and publishes its statistical information relating to its business in metric units. For the purposes of this prospectus, metric unit amounts have been converted into imperial measurements using the conversion factors set out below.

In particular, in accordance with standard international industry presentation practises, certain information concerning natural gas reserves and production is presented in cubic feet.

The following table sets forth certain standard conversions from Standard Imperial units to the International System of units (or metric units) and vice versa.

To convert from	To	Multiply by
cubic meters	cubic feet	35.3145
cubic feet	cubic meters	0.0283
cubic meters	barrels	6.289
barrels	cubic meters	0.1590
thousands of cubic feet of natural gas	barrels of oil equivalent	0.1667[(1)]
barrels of oil equivalent	thousands of cubic feet of natural gas	6.0[(1)]
feet	meters	0.305
meters	feet	3.281
miles	kilometers	1.609
kilometers	miles	0.621
hectares	acres	2.471
acres	hectares	0.405
acres	square kilometers	0.00405
square kilometers	acres	247.10
gallons	liters	3.785
liters	gallons	0.264

Note:

(1) Standard industry conversion rate used for presentational purposes. The actual conversion rate can be slightly higher or lower than the standard rate depending on the calorific value of the hydrocarbon being converted.

Certain Abbreviations

Crude Oil and Natural Gas Condensates

bbl	Barrels of oil
bbl/d	Barrels of oil per day
Mbbl/d	Thousand barrels of oil per day
MMbbl	Million barrels of oil
Boe	Barrels of oil equivalent
Mboe/d	Thousand barrels of oil equivalents per day
MMboe	Million barrels of oil equivalents
Mm^3	Thousand cubic meters
m^3	Cubic meters
Tonne/y	1 metric tonne per annum
T/d	Tonnes per day
T/y	Tonnes per year
Mt	Thousand tonnes
Mt/y	Thousand tonnes per year
MMt	Million tonnes
MMt/y	Million tonnes per year

Natural Gas

Bcm	Billion cubic meters, a standard measurement unit for natural gas
Mcf	Thousand cubic feet
MMcf	Million cubic feet
Bcf	Billion cubic feet
Nm^3/h	Normal cubic meters per hour

Presentation of Other Information

Unless the context otherwise requires, references in this prospectus to "INA Group" are to INA — Industrija Nafte d.d., together with its subsidiaries, joint ventures and associated entities. References to "INA" or the "Company" are to INA — Industrija Nafte d.d. References to "Croatia" are to the Republic of Croatia.

In this prospectus, references to "U.S. dollars", "U.S.$" or "$" are to the currency of the United States, references to "Kuna" or "HRK" are to the currency of Croatia, references to "KM" are to the currency of Bosnia and Herzegovina and references to "EUR", "Euro" or "€" are to the currency of the member states of the European Union ("EU") participating in the European Monetary Union.

Some numerical figures included in this prospectus have been subject to rounding adjustments to one decimal place. Accordingly, numerical figures shown as totals in certain tables may not be an exact arithmetic aggregation of the figures that precede them.

RESERVES INFORMATION

INA engaged Production Geoscience Ltd. ("PGL"), an independent petroleum engineering consultancy firm, in November 2005, to conduct an independent audit of its crude oil and gas reserves as of 31 December 2005 and future net revenues. The resulting reserves audit (the "Reserves Audit") was published in February 2006. This prospectus contains information relating to INA Group's estimated proved and proved plus probable oil and natural gas reserves and future net revenues that has been extracted without material adjustment from the Reserves Audit, a letter in relation to which is included in Appendix 1 of this prospectus, based upon the authority of PGL as an expert with respect to such matters. Reserve numbers used in this prospectus may differ slightly from those set forth in the Reserves Audit and referred to in Appendix 1, as conversions into cubic feet and barrels of oil equivalent have been made using the industry standard conversions based on standard calorific values set forth above rather than those used by INA Group and PGL which are adjusted for the actual calorific value. The Reserves Audit is based upon 56 domestic oil and gas fields and nine international oil and gas fields that INA Group has identified to PGL as representing, together, 100 per cent. of its proved reserves under SEC classification standard and 100 per cent. of its probable reserves under U.S. Society of Petroleum Engineers, Inc. and World Petroleum Congresses ("SPE/WPC") classification standards as at the date of the evaluation.

All reserves information in this prospectus reflects INA Group's percentage ownership of its fields.

PGL conducted its review of INA Group's fields using the standards applied by the SEC for the proved reserves in all respects except for the duration of license. The proved reserves are quoted to end of economic field life without consideration of the duration of the license, whereas under applicable SEC standards, oil and gas deposits may not be classified as proved reserves if they will be recovered after the expiration of the current license period. For the probable reserves, the SPE/WPC reserves classifications and methodologies have been used.

INA Group is providing estimates of its proved and proved plus probable reserves to help investors to better understand the future potential of INA Group's fields beyond that reflected by currently booked proved reserves. INA Group cautions investors that there are significant differences in the risk of potential recovery associated with each classification. Investors should note, however, that the SEC would not permit disclosure of such estimates in SEC filings.

LIMITATION ON ENFORCEMENT OF CIVIL LIABILITIES

All of the members of the management board or supervisory board of INA (respectively, the "Management Board" and the "Supervisory Board") and other senior management of INA Group who are not members of the Supervisory or Management Boards (the "Senior Management" and together, the "Management") named in this prospectus reside outside the United States and the United Kingdom. All or a substantial portion of their assets are located outside the United States and the United Kingdom. The Selling Shareholder is Croatia, represented by the Government of Croatia. As a result, it may not be possible to:

- effect service of process within the United States or the United Kingdom upon any of the members of the Management of INA or upon the Selling Shareholder named in this prospectus; or
- enforce, in the United States or the United Kingdom, court judgments obtained in courts of the United States or the United Kingdom, as the case may be, against INA Group or the Selling Shareholder or any of the members of the Management of INA named in this prospectus in any action, including actions under the civil liability provisions of federal securities laws of the United States.

It may be difficult to enforce actions brought in courts in jurisdictions located outside the United States or the United Kingdom or liabilities predicated upon U.S. or U.K. securities laws.

Pursuant to Croatian private international law, any judgment obtained in a foreign jurisdiction will be recognized and enforced in Croatia, except in the following cases: (i) if the Croatian court determines that the defendant was not permitted to take part in the proceedings against it due to procedural irregularities in the court of that foreign jurisdiction; (ii) if, within the exclusive competence of the Croatian court or other competent authority (in the circumstances of this transaction), such exclusive competence exists for enforcement procedures to be initiated against the Company and its assets located in Croatia, and/or disputes related to such enforcement procedures and any related bankruptcy procedures; (iii) if a final judgment in respect of the dispute in question has already been rendered by a Croatian court or other competent authority, or if another foreign court's judgment made in the same matter has already been recognized in Croatia; (iv) if there is no reciprocity with the foreign jurisdiction (reciprocity *prima facie* exists under Croatian private international law, unless proven otherwise and, if there is doubt, the Ministry of Justice will be required to determine whether there is reciprocity or not); or (v) if the judgment of the court of the foreign jurisdiction contradicts Croatian public policy.

An arbitration award would, generally, be enforceable in Croatia as Croatia is a party to the United Nations (New York) Convention on the Recognition and Enforcement of Foreign Arbitral Awards.

For a further description of the risks relating to the ability to enforce court judgments against INA, any of the members of its Management or the Selling Shareholder, see "Risk Factors — Risks Relating to the Shares and the GDRs — Shareholders may have limited recourse against the Selling Shareholder, INA and the members of Management."

FORWARD-LOOKING STATEMENTS

Certain statements in this prospectus are not historical facts and are forward-looking statements. Forward-looking statements appear in various locations, including, without limitation, under the headings "Summary," "Risk Factors," "Operating and Financial Review" and "Business". From time to time, INA Group may make written or oral forward-looking statements in reports to shareholders and in other communications. Forward-looking statements include statements concerning INA Group's plans, objectives, goals, strategies, future events, future revenues or performance, capital expenditure, financing needs, plans or intentions relating to acquisitions, competitive strengths and weaknesses, business strategy and the trends INA Group anticipates in the industries and the political and legal environment in which it operates and other information that is not historical information.

Words such as "believe," "anticipate," "estimate," "expect," "intend," "predict," "project," "could," "may," "will," "plan" and similar expressions are intended to identify forward-looking statements, but are not the exclusive means of identifying such statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. These risks, uncertainties and other factors include, among other things, those listed under "Risk Factors," as well as those included elsewhere in this prospectus. Investors should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include:

- the demand for, and prices of, crude oil, natural gas and petroleum products on the international markets and global economic and political developments;
- changes in political, social, legal or economic conditions in Croatia, including in relation to its potential accession to the EU;
- changes to the regulatory sector in which INA Group operates, particularly as regards natural gas and petroleum products pricing regulations;
- the effects of, and changes in, the policies of the Government of Croatia (the "Government");
- the continuation of the further steps in the privatization process of INA;
- the ability to fund future operations and capital needs through borrowing or otherwise;
- the ability to successfully implement any business strategies, including growing its reserves and production and refinery modernization and enhanced performance of refineries;
- the ability to increase market share and retain customers;
- the ability to attract and retain qualified personnel;
- the loss of suppliers or disruption of supply chains;
- an increase or decrease in demand for INA Group's products and services;
- the ability to obtain, retain and renew the licenses and production sharing agreements necessary for doing business;

- the effects of increased competition in the Croatian oil and natural gas markets;
- interest rate and exchange rate fluctuations; and
- the success in identifying other risks to businesses and managing the risks of the aforementioned factors.

This list of important factors is not exhaustive. When relying on forward-looking statements, investors should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which INA Group operates. Such forward-looking statements speak only as of the date on which they are made. Accordingly, INA does not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise, other than as required by applicable laws, the ZSE Rules, the listing rules of the UKLA or the Prospectus Rules. INA makes no representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

AVAILABLE INFORMATION

For so long as any of the Shares or the GDRs are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, INA will, during any period in which it is neither subject to Section 13 or Section 15(d) of the U.S. Securities Exchange Act of 1934 (the "Exchange Act"), nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such Shares or GDRs or to any prospective purchaser of such Shares or GDRs designated by such holder or beneficial owner upon the request of such holder, beneficial owner or prospective purchaser, the information required to be delivered to such persons pursuant to Rule 144A(d)(4) under the Securities Act.

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SUMMARY

This summary must be read as an introduction to this prospectus and any decision to invest in the Securities should be based on a consideration of the prospectus as a whole. Following the implementation of the relevant provisions of the Prospectus Directive in each member state of the European Economic Area, no civil liability will attach to INA Group in any such member state solely on the basis of this summary, including any translation thereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this prospectus. Where a claim relating to the information contained in this prospectus is brought before a court in a member state of the European Economic Area, the plaintiff may, under the national legislation of the member state where the claim is brought, be required to bear the costs of translating the prospectus before the legal proceedings are initiated.

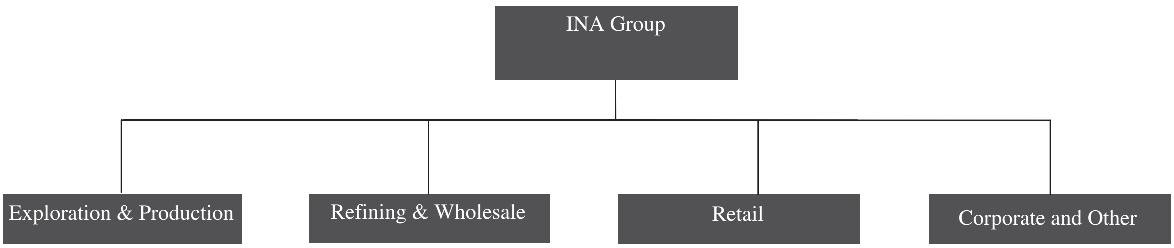
Overview

INA and its consolidated subsidiaries comprise one of the largest vertically integrated oil and gas corporate groups in South Eastern Europe as measured by total proved reserves and production, refining capacity and volume of oil products sold. INA is also one of the largest industrial companies in its Core Region (as defined in "INA Group's Market Environment") as measured by revenues. For the year ended 31 December 2005, INA Group generated revenues of HRK 21,070 million and profit from operations of HRK 1,410 million. For the six months ended 30 June 2006, INA Group generated revenues of HRK 10,782 million and profit from operations of HRK 668 million. INA Group believes that growing demand for energy in Croatia and South Eastern Europe, its portfolio of oil and natural gas exploration and development projects and its refinery modernization, retail restructuring and cost saving programs will enable it to achieve sustained growth and improved profitability.

INA Group is engaged in three principal business activities: (i) exploration and production of crude oil and natural gas, (ii) refining and wholesale marketing and (iii) the operation of, and retail sales at, petrol stations.

In addition to these three business segments, its business includes a fourth segment, "Corporate and Other".

"Corporate" refers to Corporate Functions, a cost center that provides a range of support services to the other business segments within INA Group. "Other" refers to any INA Group activities which do not fall into the three primary business segments described above. These activities are not material to INA Group results.



Exploration & Production

HRK 1,562 MM[(1)]
- Proved and probable reserves of 386 MMboe (68 per cent. gas)
- Focus regions:
  - — Onshore Croatia
  - — Offshore Croatia
  - — Middle East (Syria)
  - — North and West Africa
- Sale/import of natural gas
- Integrated oil services

Refining & Wholesale

HRK 399 MM[(1)]
- Two fuel refineries
  - — Rijeka (4.5 MMt)
  - — Sisak (4.0 MMt)
- Marketer of 4.9 MMt of fuel products in Croatia and South East Europe
- Lubricants business
- LPG business
- Operator of certain petrol stations selling primarily to wholesale customers:[(2)]
  - — Croatia (18)
  - — Bosnia and Herzegovina (41)
  - — Slovenia (6)

Retail

HRK 65 MM[(1)]
- Operator of 409 Croatian petrol stations (June 2006)
- 2H 2006 acquisition of Energopetrol[(3)], adding 65 petrol stations in Bosnia and Herzegovina

Corporate and Other

HRK (616) MM[(1)]
- Maintenance services business
- Safety and security services business
- Other support services

Notes:

(1) Profit/(loss) from operations for the year ended 31 December 2005 as extracted from the Audited Financial Statements.

(2) In addition to the 409 petrol stations included in Retail business segment.

(3) This transaction has not yet completed as the parties are awaiting the approval of the competition authorities in Bosnia and Herzegovina.

Competitive Strengths

A leading oil and gas company in the attractive South Eastern European market

INA is one of the largest vertically integrated oil and natural gas companies in South Eastern Europe as measured by total proved reserves and production, refining capacity and volume of oil products sold. INA Group estimates that its market share of wholesale oil products sales for the year ended 31 December 2005 was 80 per cent. in Croatia, 60 per cent. in Bosnia and Herzegovina and 5 per cent. in Slovenia.

INA Group is well positioned to benefit from the strong expected economic growth and consequent demand growth for refined oil products and natural gas in Croatia and the surrounding region. Gross domestic product ("GDP") growth in Croatia and the economies of South Eastern Europe have grown at rates of, on average, 3.3 and 3.5 per cent. per year, respectively, over the three-year period ended 31 December 2005, versus an average GDP growth rate of 1.2 per cent. over the same period for the EU-15 region. Robust growth is expected to continue in the future as the economies of Croatia and other countries in INA Group's Core Region (as defined in "INA Group's Market Environment") and throughout South Eastern Europe are integrated into the EU.

INA Group's large reserve base, market-leading downstream position in Croatia and overall critical mass in the center of South Eastern Europe enables it to achieve efficiencies in supply and distribution, establishes it as a preferred supplier of products to industrial customers operating throughout Croatia and neighboring countries, and has allowed it to build a well-recognized brand.

Focused exploration and production portfolio with well defined development potential

The majority of INA Group's upstream exploration and production portfolio is currently focused on onshore Croatia, with a growing presence in offshore Croatia, Syria and Africa. INA Group's exploration and production activities outside Croatia are focused in countries with which Croatia has long-standing economic relationships and/or where opportunities are well suited to INA Group's size and technical strengths. INA Group's onshore assets in Croatia, although mature, offer opportunities to improve recovery from existing fields through the application of advanced recovery technologies. INA Group's proved and proved plus probable reserve replacement rates have averaged 134 per cent. and 342 per cent., respectively over the three-year period ended 31 December 2005. INA Group expects its development projects in offshore Croatia and Syria, and its exploration activities both in Croatia and selected other countries, to be principal sources of organic growth in the next few years.

Competitively positioned refineries and extensive logistics infrastructure

Both of INA's refineries are well positioned from a supply of raw materials and marketing perspective. The Rijeka refinery on the Adriatic coast is ideally located to access multiple sources of crude oil and provide exports to neighboring countries in South Eastern Europe that are experiencing rapid demand growth as well as other Mediterranean markets.

The Sisak refinery, situated inland, is well positioned to supply the high demand centers in Northern Croatia, as well as the neighboring markets of Slovenia, Bosnia and Herzegovina and parts of Serbia. Sisak also has access to multiple sources of supply via the Adriatic and Družba pipelines, as well as to INA's own production.

INA's refineries are supported by an extensive logistics infrastructure which INA Group believes allow it to distribute its products to customers more efficiently than its competitors.

Premier domestic retail marketing network with a growing regional presence

INA Group is the market leader in the retail fuel segment in Croatia, and is increasing its presence in neighboring countries. As of 30 June 2006, INA Group operated 427 petrol stations in Croatia and, according to INA Group data, and the Croatian Energy Institute "Hrvoje Požar", had a market share in Croatia of 60.3 per cent. based on its number of petrol stations as of 31 December 2005 and 64.1 per cent. based on fuel volumes sold for the year ended 31 December 2005. INA Group operated an additional 41 petrol stations in Bosnia and Herzegovina and six petrol stations in Slovenia as of 30 June 2006. In September 2006, a MOL/INA consortium, with equal shares, signed a Recapitalization Agreement with the Government of Bosnia and Herzegovina and Energopetrol for the acquisition of a 67 per cent. interest in Energopetrol d.d. Sarajevo ("Energopetrol"), an operator of 65 petrol stations in Bosnia and Herzegovina. This transaction has not yet completed as the parties are awaiting the approval of the competition authorities in Bosnia and Herzegovina. See "Business — Recent Developments".

In recent years, INA Group has invested significant resources in the modernization of its retail network. Today, a large number of INA Group's sites offer convenience stores and other non-fuel services such as car-wash facilities and cafes. INA Group has grown its non-fuel sales by 17 per cent. from 2003. INA Group's nationwide retail network and its strong wholesale business and developing retail networks in neighboring countries have created significant brand awareness.

Strategic shareholder provides technical and managerial expertise

MOL has made significant contributions to the success of INA Group's business. MOL has helped to develop or enhance a number of INA Group's strategic initiatives, including the refinery modernization and a major cost savings initiative, and has helped establish organizational best practices in a variety of areas, including procurement, supply chain management, insurance and health, safety and the environment ("HSE"). MOL has helped in identifying and providing experts to assist with the implementation of an SAP-based integrated information technology system. INA Group expects MOL, as its strategic investor, to continue to contribute to the success of its business going forward.

Strategy

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

The strategic repositioning of INA Group began in 2000 in preparation for the first stage of INA's privatization in 2003. The repositioning has included key growth and improvement initiatives in all segments of INA Group and at the corporate level, as well as the disposition of non-core assets. The repositioning and development of a new strategy has included the retention of a number of industry consultants including ABB Lummus (refining modernization), Roland Berger Strategy Consultants (retail restructuring and logistics optimization) and McKinsey & Co. (overall cost savings and efficiency improvements).

Specific elements of INA Group's current strategy include the following:

Grow reserves and production

INA Group plans to grow reserves and production through the completion of its existing development projects, further exploration of existing fields and the acquisition of new concessions for exploration. Development projects, which INA Group expects to be its principal source of production growth, are underway in onshore Croatia (Medimurje), offshore Croatia (North Adriatic Project) and Syria (Hayan). In addition, enhanced oil recovery ("EOR") projects are planned to be undertaken at INA's Žutica and Ivanić fields onshore Croatia in 2007. INA Group estimates that its oil and natural gas production will grow by a compound annual growth rate ("CAGR") of approximately 10 per cent. through 2009, principally by completing its existing development projects.

Recent discoveries in offshore Croatia and Syria are also expected to add to growth. INA Group plans to pursue an active exploration program. INA Group has identified approximately 35 prospects and plans to drill seven exploration wells on its existing properties in 2007.

Upgrade and increase capacity utilization of refineries

INA Group is in the early stages of implementing a significant modernization and expansion program at its two refineries, which is aimed at achieving improved overall efficiency and profitability and compliance with current EU environmental emission standards. INA Group presently estimates the cost of this program to be approximately U.S.$1.1 billion between 2006 and 2011 at its Rijeka and Sisak refineries.

Key projects planned at the Rijeka refinery include the construction of a hydrocracking and hydrodesulfurization unit, which is expected to be onstream in 2009 and will enable the refinery to produce substantially all its motor fuels to EURO V specifications. A residue upgrading unit is planned to be onstream by 2011, which will use an LC finer or coker and is intended to increase crude oil throughput to 4.5 Mt/y and reduce the amount of low-margin fuel oil produced.

The modernization of the Sisak refinery will include the construction of various desulfurization units which are expected to be onstream by 2008 and which will enable the refinery to produce gasoline to EURO V specifications. A revamp of the existing coker units is planned to be completed by 2010 and the construction of a new mild hydrocracking unit is planned to be completed by 2011 which will increase Sisak's crude oil throughput to 3.2 MMt/y and ensure compliance with EURO V fuel quality requirements.

Basic design and front-end engineering design ("FEED") for the modernization projects has been completed. A number of units at the Sisak facility have already been contracted or procurement procedures have been initiated, and a number of units at the Rijeka refinery are expected to be under contract before the end of 2006. Producing higher value products that meet EU specifications should enable it to meet all the demand for such products in the retail markets where INA Group operates, facilitate the expansion of INA Group's wholesale export business and substantially improve its profitability.

Optimize logistics network

In 2005 and 2006, INA Group, with the assistance of Roland Berger Strategy Consultants, reviewed its storage and logistics operations and identified a number of improvement opportunities which INA Group is pursuing. These opportunities include rationalization of the terminal and warehouse network, outsourcing of road transport, terminal automation, organizational restructuring and introduction of performance measures. INA Group is targeting savings/improvement from these initiatives of at least HRK 170 million between 2006 and 2008, with further improvements expected thereafter.

INA Group has also identified a potentially significant business opportunity to act as the major provider of warehouse facilities and logistical services to the Croatian Agency for Mandatory Reserves of Oil and Oil Derivatives, pursuant to the new Croatian mandatory reserves requirements.

Expand and modernize retail network

INA Group's retail investment strategy is focused on three elements: the restructuring and upgrading of its existing network, the construction of greenfield petrol stations in Croatia and neighboring markets, and selective acquisitions.

With the assistance of Roland Berger Strategy Consultants, INA Group has identified and plans to implement a number of restructuring initiatives, including the segmentation of its network into premium company-owned and company-operated sites and standard company-owned franchise operated sites. Premium sites will be those with minimum annual motor fuel sales of 4 million liters, minimum annual non-fuel sales of HRK 1 million and a minimum shop space of $60m^2$. INA Group currently has 40 premium sites and has identified 100 additional sites to be converted to premium sites, based on current motor fuel sales. Other restructuring initiatives include the improvement of its product offering and the optimization of on-site and off-site costs.

INA Group also plans to selectively construct and acquire new sites in Croatia and neighboring countries, particularly in urban areas and along motorways. In Croatia, seven premium sites are currently under development and, in 2007, an additional four new premium sites are planned to be developed. In September 2006, a MOL/INA consortium, with equal shares, concluded a Recapitalization Agreement with the purpose of acquiring a 67 per cent. interest in the company Energopetrol, an operator of 65 petrol stations in Bosnia and Herzegovina. This transaction has not yet completed as the parties are awaiting the approval of the competition authorities in Bosnia and Herzegovina. INA Group is currently in negotiations with respect to a claim for restitution of assets, to gain control of Krajinapetrol and its 14 petrol stations in the Republika Srpska, Bosnia and Herzegovina.

Implement cost saving and efficiency programs

INA Group, with the help of McKinsey & Co., has identified potential cost-saving and efficiency opportunities across its business units, and is currently implementing a comprehensive program ("OptINA") to realize this savings potential. The main areas identified for savings include, *inter alia*, a reduction of hydrocarbon consumption and losses through, for example, improved heater efficiencies and installation of waste heat boilers, a procurement optimization project to optimize purchasing of energy, car rentals, office supplies, travel and telecommunications, and a maintenance rationalization project aimed at reducing sub-contractor spending across all INA Group's business segments and improving work scheduling and monthly budgeting monitoring.

Based on the analysis completed to date, INA Group is targeting additional annual savings of up to approximately HRK 750 million by the completion of the project, which is expected to take place at the end of 2008 with HRK 147 million targeted for 2006. On 1 November 2006, INA successfully rolled out Phase I of a new SAP-based integrated information technology system which is expected to improve overall efficiency, and is continuing to pursue various initiatives designed to improve its health, safety and environmental performance.

Risk Factors

An investment in the Securities involves a high degree of risk. Risk relating to INA Group's business include:

- the financial performance of certain of INA Group's business segments is expected to have a material adverse effect on its profit from operations in 2006;
- crude oil and natural gas prices are determined by factors outside INA's control and are volatile;

- a decline in refining margins would have a material adverse effect on INA's results of operations;
- government regulation and intervention affect INA Group's business;
- INA Group is required to sell natural gas at regulated prices below international prices, which has had a significantly negative impact on profits;
- INA's business and prospects will be affected by its ability to successfully modernize its refineries so as to produce fuel that complies with EU requirements;
- exploratory drilling and development involves numerous risks;
- INA Group is exposed to exchange rate fluctuations;
- an interruption of production at either of INA's two refineries would reduce INA's production;
- INA Group is dependent on natural gas supplies from Russia, and INA's natural gas supply contracts with Gazexport could be modified or may not be renewed;
- INA Group's refineries require modernization and expansion;
- INA Group may fail to replace its current reserves and sustain current production levels;
- the oil and natural gas reserves data presented in this prospectus are only estimates which may vary significantly from the actual quantities of oil and natural gas reserves that may be recovered;
- INA Group has significant oil and natural gas reserves in Syria;
- the restructuring and upgrading of the retail network may be delayed and/or prove to be less effective;
- INA Group is required to comply with stringent environmental laws and regulations, which may change;
- the Retail business segment's sales are seasonal and partially dependent on tourism;
- INA Group faces competition from other oil and natural gas companies in all areas of its operations;
- INA Group's facilities and operations may be subject to international terrorist activity;
- INA Group's operations are subject to potential losses that may not be covered by insurance;
- INA Group is in the process of implementing a new, integrated information technology system which may not achieve all of its expected benefits in accordance with the planned schedule or within budget;
- INA Group's major shareholders may continue to exercise significant influence over its strategic direction and major corporate actions;
- INA is subject to further privatization under the Law on Privatization of INA;
- Croatia, as a shareholder of INA, retains certain rights under the Law on Privatization of INA;
- INA Group is exposed to changes in the taxes, royalties and customs duties imposed on its operations;
- licenses material to the business of INA Group may be withdrawn or may need to be renewed;
- certain of INA Group's permits and formal evidence of its ownership rights may be missing or deemed insufficient, defective or inadequate;
- Croatia is seeking to accede to the EU;
- INA Group may be affected by changes in the Croatian political environment, including as a result of the parliamentary elections due to be held in Croatia in 2007;
- INA Group may not be able to control its employee costs; and
- INA Group is subject to strict competition rules, the violation of which may incur heavy penalties.

Risks relating to the Shares and the GDRs include:

- the possible volatility of the price of the Shares and GDRs may have an adverse impact on holders of Shares and GDRs;
- the pre-emption rights granted to holders of Shares and GDRs may be unavailable to United States holders of Shares;

- INA’s ability to pay dividends in the future will depend upon future earnings, financial conditions, cash flows, working capital requirements, capital expenditures and other factors;
- acquisitions of shares may trigger a mandatory takeover bid;
- future sales of substantial amounts of the Shares or the GDRs, or the perception that such sales could occur, could adversely affect the market value of the Shares and the GDRs;
- there has been no prior public market for the Shares or the GDRs;
- investors’ voting rights with respect to the Shares represented by the GDRs are limited by the terms of the Deposit Agreements for the GDRs and relevant legal requirements;
- failure by GDR holders to comply with a request for information may lead to the refusal to transfer the GDRs, the withholding of dividends or distributions of rights, the removal or limitation of voting rights or the sale or disposition of the Shares representing GDRs;
- shareholders may have limited recourse against the Selling Shareholder, INA and the members of Management; and
- the Croatian securities market is smaller, less liquid and more volatile than major securities markets and there are restrictions on transfers of the GDRs.

INA’s principal executive offices are located at Avenija V. Holjevca 10, 10002 Zagreb, Republic of Croatia. INA’s telephone number is + 385 1 6450 000. INA’s email address is ina@ina.hr.

Summary Financial Information and Data

The following table presents INA Group's summary consolidated financial information as of and for the three years ended 31 December 2003, 2004 and 2005 and as of and for the six months ended 30 June 2005 and 2006. The financial data as of and for the years ended 31 December 2003, 2004 and 2005 are derived from INA Group's Audited Financial Statements. The financial data as at and for the six months ended 30 June 2005 and 2006 are derived from the Unaudited Financial Statements. In the opinion of INA, the Unaudited Financial Statements have been prepared on a basis consistent with the Audited Financial Statements, and contain all necessary adjustments (consisting only of normal recurring adjustments) and reclassifications which are necessary for a fair presentation of such financial data in accordance with IFRS. Results for interim periods are not necessarily indicative of the results which may be expected for any other interim period or for the full year.

You should read the following information in conjunction with "Operating and Financial Review" and the Financial Statements and the notes thereto included elsewhere in this prospectus.

	Year ended 31 December				Six months ended 30 June		
	2003	2004	2005	2005	2005	2006	2006
	(Restated)	(Restated)		(U.S.$ millions)(1)	(Unaudited)	(Unaudited)	(U.S.$ millions)(1)
	(in HRK millions)				(in HRK millions)		
Income Statement Data							
Sales revenue	15,345	17,988	21,070	3,541	9,100	10,782	1,812
Other operating income	1,111	936	1,190	200	358	661	111
Total operating income	16,456	18,924	22,260	3,741	9,458	11,443	1,923
Changes in inventories of finished products and work in progress	(94)	100	508	85	116	92	15
Cost of raw materials and consumables	(7,336)	(8,293)	(11,024)	(1,853)	(4,538)	(5,382)	(905)
Other material, service and staff costs	(4,904)	(4,952)	(5,471)	(919)	(2,284)	(2,782)	(468)
Cost of other goods sold	(2,366)	(2,794)	(3,307)	(556)	(1,486)	(1,916)	(322)
Depreciation and amortization	(1,010)	(1,001)	(993)	(167)	(505)	(543)	(91)
Impairment and provisions charges	(551)	(561)	(563)	(95)	(261)	(244)	(41)
Operating expenses	(16,261)	(17,501)	(20,850)	(3,504)	(8,958)	(10,775)	(1,811)
Profit from operations	195	1,423	1,410	237	500	668	112
Share in the profit of associated companies	15	23	73	12	—	—	—
Net profit / loss from financial activities	328	(13)	(337)	(57)	(87)	109	18
Profit for the year before taxation	538	1,433	1,146	193	413	777	131
Current taxes	(4)	(313)	(236)	(40)	(114)	(144)	(24)
Deferred taxes	60	10	(25)	(4)	40	(3)	(1)
Profit for the year	594	1,130	885	149	339	630	106

Note:

(1) The financial data for the year ended 31 December 2005 and for the six months ended 30 June 2006 has been translated for convenience only into U.S. dollars at the average Kuna/U.S.$ exchange rate in the relevant period, as announced by the Croatian National Bank, of HRK 5.95 = U.S.$1.00.

	As of 31 December				As of 30 June		
	2003	2004	2005	2005	2005	2006	2006
	(Restated) (in HRK millions)	(Restated)		(U.S.$ millions)(1)	(Unaudited) (in HRK millions)	(Unaudited)	(U.S.$ millions)(1)
Balance Sheet Data							
Assets							
Non-current assets							
Intangible assets	862	1,351	551	88	491	432	75
Property, plant and equipment	9,330	10,017	12,009	1,928	10,965	12,508	2,160
Other non-current assets	1,078	884	889	143	1,222	964	166
Total non-current assets	11,270	12,252	13,449	2,159	12,678	13,904	2,401
Current assets							
Inventories	2,500	2,350	3,442	552	3,184	3,590	620
Trade receivables net	1,938	1,983	2,304	370	2,018	2,191	378
Other current assets	472	521	724	116	354	587	101
Cash with bank and in hand	334	714	376	60	474	396	68
Total current assets	5,244	5,568	6,846	1,099	6,030	6,764	1,168
Total assets	16,514	17,820	20,295	3,258	18,708	20,668	3,570
Equity and liabilities							
Total equity	9,821	10,768	11,783	1,891	11,223	12,480	2,155
Non-current liabilities							
Long-term loans	1,125	842	748	120	688	1,123	194
Other non-current liabilities	1,451	1,677	1,992	320	1,588	1,619	280
Total non-current liabilities	2,576	2,519	2,740	440	2,276	2,742	474
Current liabilities							
Bank loans and overdrafts	487	345	958	154	1,014	1,220	211
Current portion of long-term debt	449	462	476	76	461	290	50
Accounts payable	2,099	2,202	3,239	520	2,349	2,893	500
Other current liabilities	1,082	1,524	1,099	176	1,385	1,043	180
Total current liabilities	4,117	4,533	5,772	926	5,209	5,446	941
Total liabilities	6,693	7,052	8,512	1,366	7,485	8,188	1,414
Total equity and liabilities	16,514	17,820	20,295	3,258	18,708	20,668	3,570

Note:

(1) The financial data as of 31 December 2005 and 30 June 2006 has been translated for convenience only into U.S. dollars at the Kuna/U.S.$ exchange rates in effect on 31 December 2005 and 30 June 2006, as announced by the Croatian National Bank, of HRK 6.23 = U.S.$1.00 HRK 5.79 = U.S.$1.00 respectively.

	As of and for the year ended 31 December			As of and for the six months ended 30 June	
	2003	2004	2005	2005	2006
	(in HRK millions, except for percentages)				
Other Operating Data					
EBITDA(1)	1,756	2,985	2,966	1,266	1,455
Net cash from operating activities	1,608	3,036	1,249	248	769
Total capital expenditure	2,159	2,316	2,132	787	1,254
Return on equity (ROE) %(2)	6.0	10.5	7.5	6.0	10.1
Return on capital employed (ROCE) %(3)	1.7	12.2	10.4	7.7	9.1

Notes:

(1) Earnings before interest, taxes, depreciation and amortization ("EBITDA") is a financial measure that has not been prepared in accordance with IFRS, and prospective investors should not consider it as an alternative to the applicable IFRS measure. EBITDA is equivalent to profit from operations, before the deduction of depreciation and amortization and impairment and provision charges (net). EBITDA excludes INA's share in the profit of associated companies. See "Presentation of Financial and Other Information — Non-GAAP financial measures".

The table below is a reconciliation of EBITDA to profit from operations for the three years ended 31 December 2005 and the six months ended 30 June 2005 and 2006.

	For the year ended 31 December			For the six months ended 30 June	
	2003	2004	2005	2005	2006
	(in HRK millions)				
Profit from operations	195	1,423	1,410	500	668
Add:					
Depreciation and amortization	1,010	1,001	993	505	543
Impairment and provision charges (net)	551	561	563	261	244
EBITDA	1,756	2,985	2,966	1,266	1,455

(2) Calculated as profit for the year divided by total equity as of year end.

(3) Calculated as profit from operations divided by total equity plus net debt where net debt equals long-term loans plus bank loans and overdrafts plus current portion of long-term debt less cash with bank and in hand as of year end.

Key Operating Statistics

	As of and for the year ended 31 December			As of and for the six months ended 30 June
	2003	2004	2005	2006
Exploration & Production				
2005 proved and probable reserves				
— crude oil and natural gas condensate (MMbbl)			121.8	
— natural gas (MMboe)			264.0	
Total hydrocarbons (MMboe)			385.8	
Average daily production				
— crude oil (Mbbl/d)	17.8	16.8	16.8	15.1
— natural gas (MMcf/d)	179.0	178.5	177.8	188.2
— natural gas condensate (Mbbl/d)	7.7	7.7	7.4	8.3
Total hydrocarbons (Mboe/d)	55.3	54.3	53.8	54.8
Domestic natural gas sales (Bcf)	95.8	101.3	97.2	50.2
Natural gas imports (Bcf)	40.1	37.2	39.9	19.5
Refining & Wholesale				
Refining capacity excluding lubricants (MMt)	8.5	8.5	8.5	8.5
Refining throughput excluding lubricants (MMt)	5.1	5.3	5.0	2.2
Retail				
Number of petrol stations(1)	405	410	410	409
Retail sales volume (Mt)(2)	1,056	1,049	1,090	516

Notes:

(1) Excluding 65 petrol stations operated by Crobenz d.d., INA-Osijek Petrol d.d., Holdina d.o.o. Sarajevo, InterINA d.o.o. Mostar and InterINA d.o.o. Ljubljana.

(2) Including motor fuel and heating oil (extra light).

RISK FACTORS

An investment in the Shares and GDRs involves a high degree of risk. Investors should carefully consider the following information about these risks, together with the information contained in this prospectus, before deciding to buy the Shares or GDRs. If any of the following risks actually occurs, INA Group's business, prospects, financial condition or results of operations could be materially adversely affected. In that case, the value of the Shares and GDRs could also decline and investors could lose all or part of their investment.

INA Group has described the risks and uncertainties that management believes are material, but these risks and uncertainties may not be the only ones it faces. Additional risks and uncertainties, including those INA Group is not aware of or presently considers immaterial, may also result in decreased revenues, increased expenses or other events that could result in a decline in the value of the Shares and GDRs.

Risks Relating to INA Group's Business

The financial performance of certain of INA Group's business segments is expected to have a material adverse effect on its profit from operations in 2006.

Due to the factors discussed in more detail below in "— Risks Relating to INA Group's business" and in "Operating and Financial Review", INA expects that profit from operations attributable to the Exploration & Production business segment and the Retail business segment in 2006 will be broadly similar to the levels of profitability achieved in 2005. However, INA expects that the Refining & Wholesale business segment may realize a loss from operations in 2006, and for the Corporate and Other business segment's loss from operations to be higher in 2006 than was the case in 2005. It is expected that these factors, together with certain others, will have a significant and materially adverse impact on INA Group's profit from operations in 2006.

Crude oil and natural gas prices are determined by factors outside INA's control and are volatile.

The demand for, and prices of, crude oil, natural gas and petroleum products are dependent on a variety of factors over which INA Group has no control, including:

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

Historically, international crude oil and natural gas prices have fluctuated widely. A material change in the price of crude oil or natural gas may have a material effect on INA Group's results of operations. Lower crude oil and natural gas prices may reduce the amount of oil and natural gas that INA Group can produce economically or reduce the economic viability of projects planned or in development.

A decline in refining margins would have a material adverse effect on INA's results of operations.

The operating results of INA Group's refining business depend on the spread, or margin, between prices INA Group can obtain in the market for its refined petroleum products and the prices it pays for crude oil. The price paid by the Refining & Wholesale business segment for crude oil produced by the Exploration & Production business segment is referenced to international prices. However, margins earned by INA Group on products produced using INA Group's own crude oil are higher, as this oil does not include the high import costs associated with internationally sourced crude oil supplies. INA Group produces approximately 18 per cent. of the total crude oil it refines. As INA Group's oil fields continue to mature and it becomes increasingly dependent upon third parties for the supply of crude oil (assuming no new significant discoveries of crude oil by INA Group), its refining margins may come under increasing pressure. The cost of acquiring feedstocks and the prices at which INA Group can ultimately sell its refined products depend on a variety of factors beyond INA Group's control, including:

- aggregate global and regional demand and supply for crude oil and refined petroleum products;
- changes in demand and supply for specific crude oils and other feedstocks, as well as specific refined petroleum products;

- capacity in the global refining industry, particularly in INA Group's Core Region (as defined in "INA Group's Market Environment") and neighboring markets, to convert crude oil into refined petroleum products and, in particular, into the petroleum products refined and/or sold by INA Group;
- changes in the cost and availability of logistical services for transporting feedstocks and refined petroleum products;
- changes in the differentials between sour and sweet crude oil prices on international markets; and
- changes in the mandatory petroleum product specifications of the EU and governmental authorities for refined petroleum products such as those contained in the EU Fuel Quality Directive.

Although an increase or decrease in the price of crude oil generally results in a corresponding increase or decrease in the price of the majority of refined products, changes in the prices of refined products generally lag behind changes in crude oil prices. As a result, a rapid and significant increase in the market price for crude oil could have an adverse impact in the short term on INA Group's refining margins. Furthermore, movements in the price of crude oil and refining margins may not correlate at any given time. In addition, INA Group's prices for refined products on the domestic market are subject to regulation by the Ministry of the Economy, Labor and Entrepreneurship (the "Ministry") and State Influence (as defined in "— Government regulation and intervention affect INA Group's business"). Accordingly, such prices may not reflect changes in crude oil prices completely and/or on a timely basis.

Government regulation and intervention affect INA Group's business.

Commercial decisions taken by INA Group are from time to time adversely affected by Government and parliamentary actions and influence ("State Influence"). This has affected, and may continue to affect, INA Group, in various areas:

- in order to meet the demand of the customers it supplies, INA Group is required to import natural gas from Russia, which amounted to 41 per cent. of its total natural gas requirements in 2005. This natural gas is purchased at prices which are broadly equivalent to international prices. However, INA Group is required to sell natural gas to its domestic "tariff" customers at regulated prices that are significantly lower than international prices. In addition, the Government requires that the prices charged by INA Group to its "eligible" customers, which are generally large industrial customers partially or wholly owned by Croatia, be even lower than those charged to its domestic tariff customers. The combined effect of these actions has resulted in INA Group having to forgo the receipt of a significant amount of income;
- the Croatian pricing formula (taking into account average Platt's product prices) applicable to the sale of certain refined products produced by the Refining & Wholesale business segment, principally comprising gasoline and diesel fuel, limits INA Group's ability to fully and immediately reflect changes in crude oil prices and the costs relating to purchasing or producing refined products. See "Operating and Financial Review — Factors affecting INA Group's Business and Results of Operations — Retail fuel products and natural gas pricing regulations". Effective from 7 July 2006, the Ministry of Economy issued a new Rulebook on the Pricing of Derivatives which has resulted in a modification to the pricing formula which now:
    - has a reduced custom tariff component of 2.1 per cent. (previously 4.2 per cent.), which INA Group understands is to be reduced to zero in 2007;
    - no longer includes a fee component for mandatory reserve holding charges of HRK 79.6/t that INA (and all other market participants) were previously able to factor into their fuel product prices;
    - has introduced a HRK 120/t fee to fund the Agency for Mandatory Reserves of Oil and Oil Derivatives and to cover the costs of mandatory reserves detailed below; and
    - has reduced the margin for blue diesel from HRK 0.60/liter to HRK 0.30/liter.

  These regulatory changes have imposed new, lower limits on the maximum prices INA Group can charge for affected products and, as such, are expected to contribute to the expected loss from operations in the Refining & Wholesale business segment in 2006, as compared to the profit from operations realized in 2005, which will have a significant negative impact on the overall profit of INA Group for the full year. The adverse effect on INA Group's profit from operations of the prices that it could charge under the new pricing formula, when compared to the prices it could have charged under the previous pricing formula, is estimated to amount to up to approximately HRK 200 million for the full year 2006, assuming that current prices and volumes remain constant.

- in addition to the pricing formula, as a result of State Influence and social pressures, since the second quarter of 2006, INA Group has been unable to charge the maximum prices for products subject to the pricing formula (principally gasoline and diesel). This has also adversely affected the prices that could be charged for most of INA's product slate. Consequently, the adverse effect on INA Group's profit from operations, assuming it would have been able to maximize the prices that it could have charged under the relevant pricing formula that prevailed at the time, is estimated to amount to approximately HRK 300 million for the full year 2006, assuming that current prices and volumes remain constant.
- the maximum prices under the new formula now reflect a fee that is payable by INA Group and all other market participants of HRK 120/t to fund the Agency for Mandatory Reserves of Oil and Oil Derivatives, and the costs of mandatory reserves of oil and refined products. If the maximum price under the new pricing formula could be charged, this fee component could be passed on in full to INA Group's customers. However, if it is unable to do so, INA Group's profit from operations is expected to be further negatively impacted. In addition, INA Group and other market participants are still required to retain mandatory reserves, the costs of which can no longer be recovered under the revised formula;
- customs duties are imposed on the import of refined oil products into Croatia. INA Group's domestic production has historically given it an advantage over its competitors who import all of the refined products they sell, upon which they must pay import duties. However, the decrease in import duties in 2006 from 4.2 per cent. to 2.1 per cent. have reduced INA Group's competitive advantage in this respect. In the future, it may disappear altogether if, as expected by INA Group, this import tariff is eliminated in 2007;
- a mineral resources exploitation fee is imposed on INA Group based on the gross revenue derived from the sale of oil and natural gas exploited (produced) on the respective field. The mineral resources exploitation fee of 2.6 per cent. (or 5 per cent. in areas of special state care, e.g., underdeveloped areas) has been unchanged since 2001, and is low in comparison with other European states. In other Eastern European states, this fee has typically been increased following EU accession. Any material change in the mineral resources exploitation fee payable by INA would have an adverse effect on INA Group's results of operations;
- INA Group, like any other marketer of refined products in Croatia, is required by law to maintain specified levels of mandatory reserves to ensure energy security and market supply. Mandatory reserves may be kept partly as crude oil and partly as refined product, and INA has taken the opportunity to store part of its mandatory reserves as crude oil. See "Regulation — Croatia — Industry regulation — Oil and refined products reserves — Mandatory reserves". In 2005, INA was required to reserve 20 per cent. of the prior year's net imported quantity of crude oil and refined products. Although this level will be increased to 25 per cent. in 2007, these reserve levels are the subject of discussions between the Government and industry representatives and are being considered by the Government as part of its overall review of strategic reserves. In addition, the reserve levels are expected to be measured not by a percentage of the prior year's net imported quantity, but by consumption days. There can be no assurance that the result of this review will not impose more restrictive mandatory reserve requirements.

  In addition, prior to July 2006, the cost of keeping mandatory reserves could be partially recovered through wholesale and retail sales prices, as the storage cost was reflected in the pricing formula applied to the sale of certain refined products. However, in July 2006, this indirect subsidy was abolished by a change to the pricing regulations, and the full cost of carrying these stocks is now borne by INA Group and other market participants. At the same time, a requirement was imposed on INA and other market participants and importers of refined products to pay a fee for mandatory reserves of 120 HRK/t of refined products as described above. Although INA Group, together with other market participants, is discussing these restrictions with the Ministry, there can be no assurance that the outcome of these discussions will improve the position for the long-term;
- INA Group sells fuel oil that it produces as a by-product of its normal refinery process to Hrvatska elektroprivreda d.d. ("HEP"), the state electricity company. However, in the past, INA has had to produce additional quantities of fuel oil for HEP, to the detriment of the optimal operation of the refineries;
- the Government's support of the collective bargaining arrangements of INA Group's unionized workforce has inhibited INA's ability to reduce the size of its workforce and prevent salary increases, which has had an adverse effect on INA Group's results of operations; and
- as part of the Government's review of all issues related to Croatia's strategic reserves, the Government has indicated to INA that it will require INA to transfer the gas storage facility at Okoli to the Government or a Government owned or controlled entity. The terms of the transfer have not yet been fully determined.

Although INA Group believes that the Government will continue to provide gas storage facilities to all relevant market participants, including INA Group, at rates that are expected to be based on the costs of operating facilities, this may not be the case. Additionally, while INA Group believes that it may manage the facility on behalf of the Government following such a transfer, there can be no guarantee that this will be permitted. The basis of transfer and the rules and tariffs for gas storage going forward have not yet been determined. While INA Group does not expect the transfer of its gas storage facilities or further storage costs to have a material effect on its financial condition and results of operations, there can be no assurance that this will be the case.

INA Group is required to sell gas at regulated prices below international prices, which has had a significantly negative impact on profits.

In 2005, INA Group imported approximately 41 per cent. of the natural gas sold by INA Group from Russia, pursuant to a supply contract with OOO Gazexport ("Gazexport"). Pursuant to the terms of this contract, INA must pay prices that are calculated using a pricing formula based on the international benchmark prices of refined products, although the price at which it has been able to sell natural gas in Croatia has been significantly lower due to applicable pricing regulations for tariff customers (e.g., distributors) and State Influence in respect of certain customer contracts. See "— Government regulation and intervention affect INA Group's business". Internal transport costs are met by INA and are only reimbursed through the sales price for gas and, accordingly, even the regulated and agreed prices are not recouped. Transportation costs from the border to customers levied by Plinacro d.o.o ("Plinacro"), Croatia's state-owned gas transmission operator, are initially paid by INA but separately invoiced and recouped from customers. During 2005, INA Group did not suffer losses on its overall natural gas sales, due to the fact that it was able to offset losses on the sale of imported natural gas with profits on sales of domestically-produced natural gas, since the margin on domestically-produced natural gas is positive. During 2006, international gas prices have risen sharply in line with international crude prices, while the prices for gas sales have remained largely unchanged. As a result, imported gas has been sold at a greater loss and the opportunity cost for domestically produced gas has been greater. This has adversely affected INA Group's results of operations in the third quarter of 2006, and is expected to have an even more significant impact on its results of operations in the fourth quarter as the Russian natural gas price for this period will indirectly reflect the highest ever historical crude oil prices. Consequently, INA Group expects that total profit from operations of the Exploration & Production business segment in 2006 will be broadly similar to the levels achieved in 2005, notwithstanding the higher crude oil prices, and will have a significant negative impact on the overall profit from operations of INA Group for the full year 2006. See "Operating and Financial Review — Recent Trends and Developments — Exploration & Production — Natural gas". INA Group's inability to sell imported natural gas on a profitable basis may have a material adverse effect on the profit from operations of the gas business, which may result in a material adverse effect on INA Group's business and results of operations as a whole.

INA's business and prospects will be affected by its ability to successfully modernize its refineries so as to produce fuel that complies with EU requirements.

A relatively high proportion of the cars in Croatia are between 10 and 12 years old, and there has therefore been less demand for motor fuels that meet higher emission quality standards. However, demand in Croatia for motor fuel products which are compliant with the newer, more stringent EU standards (which are enforced by current Croatian regulations and require that motor fuels be made available on the domestic market to match EURO IV specifications (and, from January 2009, EURO V specifications)) is increasing, as the price differential of lower quality gasolines is not significant and high quality fuel improves engine efficiency. The quality of fuel products in Croatia is prescribed by an Ordinance of the Government (Official Gazette 53/2006). INA Group is in the process of upgrading its refineries to establish appropriate additional refining and conversion capacity, and expects to produce significantly more product which complies with EURO IV and EURO V specifications ("Eurograde" products). INA Group is currently unable to produce sufficient quantities of EURO IV product to satisfy the demand in the markets in which it operates, and does not expect to be able to meet all the expected Croatian market demand for EURO IV/V products until 2009. Accordingly, until INA Group is able to meet market demand for these products, INA Group will have to procure Eurograde products from third parties, which has had and may continue to have an adverse effect on the profitability of the Refining & Wholesale business segment. In addition, if INA Group's competitors establish additional refining and conversion capacity that allows them to produce more Eurograde products, this may have a material adverse effect on INA Group's business and results of operations. See "— INA Group's refineries require modernization and expansion", "— Croatia is seeking to accede to the EU" and "Regulation — Croatia — Industry regulation — Oil and refined product reserves — Fuel quality".

Exploratory drilling and development involves numerous risks.

Exploration and development projects involve many uncertainties and operating risks that can cause substantial losses. INA Group's exploration and development projects may be delayed or unsuccessful for many reasons, including cost overruns, geological issues, difficulties in complying with governmental requirements, equipment shortages and mechanical difficulties. These projects, particularly those relating to fields which are offshore or in other challenging terrains, will also often require the use of new and advanced technologies, which can be expensive to develop, purchase and implement, and which may not function as expected.

Oil and natural gas exploration and drilling is also subject to a wider range of project specific hazards, including blowouts, reservoir damage, loss of well control, punchthroughs, craterings, fires and natural disasters. The occurrence of any of these events could result in the suspension of drilling operations, damage to or destruction of equipment, injury or death to rig personnel, damage to potentially productive oil and natural gas wells and extensive environmental damage, particularly through oil spillage or extensive uncontrolled fires. In addition, offshore drilling operations, which are increasingly important to INA, are subject to conditions unique to marine operations, whether at offshore sites or while drilling equipment is under tow, including capsizing, grounding, collision and loss or damage from adverse weather conditions. Should any of these risks materialize, INA Group could suffer operating losses which would have a material adverse effect on its business and results of operations.

INA Group is exposed to exchange rate fluctuations.

INA Group is a net purchaser of crude oil and purchases the substantial majority of its crude oil supplies, typically under short term arrangements, in U.S. dollars at spot market prices. In 2005 INA Group imported approximately 41 per cent. of its total natural gas requirements from Russia, also pursuant to U.S. dollar-denominated contracts. The associated foreign currency risk is partially mitigated by the pricing formula applicable to the sale of motor fuels and heating oils, which indirectly reflects the underlying U.S. dollar price of refined products, and export sales of crude oil, natural gas and refined products denominated in U.S. dollars. In addition, INA's long-term financing costs are all denominated in foreign currencies, principally U.S. dollars, as well as Euro, and the substantial financing costs and equipment purchase expenses associated with INA Group's refinery modernization program are expected to be denominated in U.S. dollars and Euro.

INA Group is therefore exposed to the risk of foreign exchange gains and losses arising from fluctuations in the rate of exchange of the Kuna, INA Group's reporting currency, relative to foreign currencies, particularly the U.S. dollar. The Kuna/U.S. dollar exchange rate as of 31 December 2005, 2004 and 2003, respectively, was 6.23, 5.64 and 6.12 Kuna per 1 U.S. dollar. The Kuna/Euro, exchange rate on the same dates was 7.38, 7.67 and 7.65 Kuna per 1 Euro, respectively.

An interruption of production at either of INA's two refineries would reduce INA's production.

INA Group's business is dependent on its refineries in Rijeka and Sisak. The Rijeka refinery is INA Group's principal production facility, and had an annual throughput in 2005 of approximately 3.2 million tonnes, while the Sisak refinery had an annual throughput of approximately 1.7 million tonnes in the same period.

INA Group's operations would be subject to significant interruption if either or both of these refineries were to experience a major accident or otherwise be forced to shut down or curtail production due to unforeseen events, such as interruption of the supply of crude oil through third-party pipeline networks or terminals, fires, floods, extended power outages, equipment failures longer than expected planned maintenance shutdowns, or industrial accidents.

In addition, INA Group's domestic oil fields are connected directly to the Sisak refinery. As a result, were the Sisak refinery to experience a major accident, INA Group would need to find alternative offtake arrangements. Any delay experienced in agreeing and putting in place these arrangements may have a material adverse effect on INA Group's profit from operations.

INA Group is dependent on natural gas supplies from Russia, and INA's natural gas supply contracts with Gazexport could be modified or may not be renewed.

INA Group is dependent on supplies of natural gas from the Russian Federation for INA Group's natural gas distribution business. In 2005, approximately 41 per cent. of Croatia's natural gas demand was imported from Russia pursuant to a supply contract with Gazexport which terminates in 2010. Since deliveries began in 1978 under the Russian natural gas supply agreements with the Russian Federation, INA Group has not experienced any significant interruption of supply or deviation from contractual delivery requirements, other than a decrease in the volume of natural gas delivered by Gazexport during the summers of 2005 and 2006 due to announced pipeline repair works in the Ukraine and Slovakia. INA was able to offset this shortfall at the time by importing additional natural gas from the Austrian company, Econgas GmbH, and to reduce its impact by negotiating a decrease in the annual volume of natural gas it was required to supply in 2006 under its contracts with HEP and Petrokemija d.d. However, there can be no assurance that INA Group will not experience future interruptions nor, were they to occur, that it would be able to source alternative natural gas supplies to meet its contractual obligations or otherwise renegotiate its contractual obligations to deliver natural gas (particularly in view of State Influence over certain customer relationships).

Gazexport and INA are entitled, from 2008, to request modification of the terms of the supply agreement under certain circumstances. In addition, when the current supply agreement expires in 2010, there can be no assurance that INA will be able to renew the agreement on its current or more favorable terms.

If Gazexport fails to perform its obligations in accordance with the terms of its agreement with INA, or if the agreement is modified or not renewed, INA Group might have difficulty finding adequate alternative sources of natural gas on acceptable pricing terms. Although INA could manage any supply short fall in the short term by not renewing certain of its own supply contracts, the term of its contracts with certain eligible customers exceed the term of the Gazexport contract. See "Business — Exploration & Production — Customers and pricing". This is the case, for instance, with HEP, INA's largest natural gas customer, whose contract is not due to expire until 2015. INA would therefore have to find an alternative third-party supplier or meet the consequences of failing to meet its contractual obligations with such customers.

Furthermore, INA Group relies on third parties for the transport of imported natural gas to the Croatian border for delivery into the Croatian transportation network as well as in Croatia for the transport to its customers and/or storage facilities. INA Group is therefore exposed to the usual risks of using third-party pipelines, including unplanned supply stoppages, tariff increases, accidents and product losses.

INA Group's refineries require modernization and expansion.

INA Group presently estimates a cost of approximately U.S.$1.1 billion for the period from 2006 to 2011 for the modernization and expansion of its refineries which has increased by approximately 20 per cent. from the estimates originally made in May 2005. This project is intended to enable the production of Eurograde products, improve overall product yield of lighter products and increase the refineries' production throughput, and is aimed at achieving compliance with current EU environmental emissions standards. All major project developments at Sisak and Rijeka are being coordinated through a special project unit. The technologies being implemented are all licensed and well-proven. This is the biggest project ever undertaken by INA Group and is being implemented on a fast track basis. INA Group believes the project remains on target for 2011; however, the project has not progressed in construction terms as fast as originally envisaged. This is due to a variety of factors, including shortage of appropriately qualified people to join the project team, particularly given various other significant projects that are running simultaneously within INA Group, and limited availability of qualified external candidates; a highly bureaucratic public procurement procedure from which the project has recently been exempted; delays in obtaining various permits and extended negotiation and delivery times for supplies and services due to overall industry shortages. Large projects of this type may also be delayed and/or subject to cost overruns for additional reasons, some of which are outside the control of INA Group. In addition to those referred to above, they include the availability of financing on acceptable terms and general diversion of management time. The modernization program is business critical, since without it INA Group's own refineries will be unable to meet future demand for Eurograde product in sufficient quantities to remain profitable. Any delay in completion would therefore be likely to have a material adverse impact on INA Group and, once completed, there can be no assurance that INA Group will realize the benefits that are expected to result from the modernization program.

Before the modernization is completed, there is also a greater chance that unplanned stoppages may occur due to the relative age of the refineries, which would have an adverse effect on the refineries' production capacity. The resulting production stoppages are in general not beneficial to extended unit life or high energy efficiency.

Furthermore, if INA Group's competitors modernize and expand their refinery facilities, this will increase the competitive pressure on INA Group, which may have an adverse effect on its business and results of operations. Environmental standards may also become more onerous during the period the refineries are being upgraded or thereafter, and INA Group's competitors may be better-placed to respond quickly and cost-efficiently to any such new standards.

INA Group may fail to replace its current reserves and sustain current production levels.

INA Group's future crude oil and natural gas production is dependent on successfully finding and developing or acquiring additional proved oil and natural gas reserves, and on converting its existing probable and possible reserves into proved reserves. This is particularly the case with respect to INA Group's natural gas business.

INA Group's strategy to replace its existing reserves entails in part the purchase of new concessions outside of Croatia, including in the CIS region, where it may face considerable competition. In addition, as INA expects that its future acquisition of concessions for exploration and development activities will usually be carried out through a joint venture or partnership, INA Group may face the risks normally associated with such investment arrangements. The acquisition of new fields and/or production assets involves the risk that these may have geological characteristics of a type which INA Group lacks experience of dealing with, or which may require specialist equipment or personnel with particular expertise, which it may be difficult and/or expensive for INA Group to acquire.

There can be no assurance that INA Group will be successful in its exploration and development activities or in purchasing proved reserves, or that, if successful, the resulting discoveries or purchases will be sufficient to replenish its current reserves. If INA Group is unsuccessful, it will not meet its production targets and its total reserves will decline, which will have a negative effect on its future results of operations and financial condition.

The oil and natural gas reserves data presented in this prospectus are only estimates which may vary significantly from the actual quantities of oil and natural gas reserves that may be recovered.

The reserves data set forth in this prospectus represents only estimates and should not be construed as exact quantities. See "Business — Exploration & Production — Natural gas, natural gas condensate and crude oil reserves and production". Numerous uncertainties are inherent in estimating quantities of reserves, future rates of production and the timing of development expenditures. The reliability of reserves estimates depends on a number of factors, assumptions and variables, many of which are beyond INA Group's control. These include:

- the quality and quantity of available geological, technical and economic data;
- the actions of joint venture partners;
- whether the prevailing tax rules and other government regulations, contractual conditions, oil, natural gas and other prices will remain the same as on the date estimates are made;
- the production performance of INA Group's reservoirs; and
- extensive engineering interpretation and judgment due to the subjective nature of estimating oil reserves.

In addition, results of drilling, testing and production subsequent to the date of an estimate, generally result in revisions to that estimate. Accordingly, reserves estimates may be materially different from the quantities of crude oil or natural gas that are ultimately recovered and, if recovered, the revenue therefrom and the costs related thereto could be materially different from estimated amounts. The significance of such estimates is highly dependent upon the accuracy of the assumptions on which they are based, the quality of the information available and the ability to verify such information against industry standards. This data may prove to be incorrect. Potential investors should not place undue reliance on any forward-looking statements in the letter from PGL and/or included in this prospectus and relating to the reserves audit it carried out.

INA Group has significant oil and natural gas reserves in Syria.

INA Group has been active in Syria since the mid-1970s and is currently exploring and developing two blocks. Syria accounts for 0.4 per cent. of INA Group's total proved oil and natural gas reserves, but 19.3 per cent. of INA Group's total proved and probable oil and natural gas reserves. INA's Exploration & Production business segment's natural gas strategy is partially dependent on its successful exploration and development of its natural gas fields in Syria. Syria is subject to certain international sanctions, including those promulgated by the U.S. Office of Foreign Asset Control. Although the limited sanctions do not presently impact INA Group's activities in Syria, any future sanction regimes which may be introduced could adversely affect the way in which, among other things, INA Group funds its exploration and development activities in Syria. In addition, any military or political disruption in Syria may affect the business of INA Group in a number of ways, including disrupting production and transport of crude oil or natural gas supplies and causing loss of property. Any disruption of INA Group's ability to produce or transport its products could result in a significant decrease in revenues and significant additional costs to replace or repair and insure INA Group's assets, which could have a material adverse effect on the business, financial condition and results of operations of INA Group. While INA Group has not experienced significant disruptions to its Syrian activities as a result of economic or political instability or the effect of sanction regimes in the past, future disruptions could adversely affect its ability to capitalize on its investments in Syria.

The licenses and agreements that INA Group has entered into in accordance with its interests in Syria are effectively with the government of Syria, and may be subject to policy influences and changes. The Syrian government has recently expressed a desire to re-open discussions on the terms of INA's licenses and agreements in light of the recent international price increases for oil and gas. Although these discussions have not commenced, it is possible that these discussions might result in a negative outcome for INA Group and might include changing the terms of the concessions in a way which negatively impacts INA Group's share in the revenue from the fields and/or require additional amounts to be paid by INA Group. Depending on the impact of the general policy influences in Syria and the requested discussions in particular, there may be a material negative effect on, for example, net revenues from INA Group's Syrian operations, which may in turn have a negative effect on INA's future results of operations and its financial condition.

The restructuring and upgrading of the retail network may be delayed and/or prove to be less effective.

INA is planning a major restructuring and upgrading of its retail petrol stations. See "Business — Retail". The implementation of INA Group's retail strategy is subject to a variety of risks, including: shortage of sufficient resources, given the other projects being pursued by INA within the same timescales; delays and unforeseen problems with the conversion of the present sites into dealer/franchisee operated sites; and delays and cost overruns in constructing new sites or reconstructing and developing existing sites. It is also possible that the benefits that INA Group presently expects to derive from the restructuring and upgrade will not be fully achieved following implementation of the strategy. The delays, increased costs and possible lack of expected benefits may have a negative impact on the financial results and condition of the Retail business segment.

INA Group is required to comply with stringent environmental laws and regulations, which may change.

INA Group's operations are subject to numerous and increasingly stringent environmental laws and regulations relating to the protection of human health and safety and the environment. Although the measures taken by INA Group to comply with health, safety and environmental laws and regulations have not had a material adverse effect on INA Group's financial condition or results of operations to date, it is likely that the costs of and provisions for such measures in the future and liabilities due to environmental damage caused by INA Group or for which INA Group is responsible will be more material than in the past and may have a material adverse impact on the financial position of INA Group. INA Group incurs, and expects to continue to incur, substantial capital and operating costs to deal with and to limit environmental damage and to comply with increasingly complex laws and regulations covering the protection of the environment and human health and safety. These include costs to replace old tanks and pipes, reduce certain types of air emissions and discharges, utilize spill-free technology and remediate soil and groundwater contamination at various owned and previously owned facilities and at third-party sites where INA Group's products or wastes have been handled or disposed of. New laws and regulations, particularly those which will be introduced following Croatia's accession to the EU, will require additional work to be done. This could possibly include the remediation of contamination that is presently identified but which under existing laws does not need to be remediated, the imposition of tougher requirements in environmental permits and licenses, increasingly strict enforcement of, or new interpretations of, existing laws, regulations and licenses, or the discovery of previously unknown areas of contamination. This may require further expenditure to modify operations, install pollution control equipment, perform remediation, curtail or cease certain operations, or pay fees or fines or make other payments for discharges or other breaches of environmental standards. This is likely to have a material adverse impact on INA Group's financial condition and/or results of operations. In particular as the laws develop, and as INA Group's understanding of its liabilities for environmental matters becomes more certain, INA Group expects to make increasingly greater provisions in its financial statements for such matters.

INA Group has commenced a work plan, with the help of international environmental consultants, to better estimate its future environmental costs on a variety of bases over a period up to 2020. This estimating process is still being carried out and will be dependent on further analysis. At present it is only indicative of the amounts INA Group may be required to spend.

INA Group estimates that the present value of the costs of environmental compliance (in addition to expenditure already provided for or included in the refinery modernization program and the petrol station upgrade program) might be in the range of €20 million to €80 million, with the upper end representing those costs that might need to be incurred if Croatia joins the EU within the period between now and 2020. More work on determining the possible range of the costs of complete soil and groundwater remediation is required but, based on companies in similar situations, the environmental consultants hired by INA believe that if INA Group were to comply fully with

Croatian and EU requirements for soil and groundwater contamination, the present value of costs could range from €5 million (to comply with Croatian requirements) to between €25 million and €40 million (to comply with Croatian and EU requirements). This costs range can only be refined by further and continued monitoring, which INA Group plans to do. It is also important to recognize that the soil and groundwater remediation involves an extremely long-term program of possible expenditure. A considerable proportion of the estimated expenditure relates to the environmental work required to be carried out at INA Group petrol stations.

Provisioned, anticipated or estimated expenditure on environmental issues is subject to the usual issues associated with such matters, including cost overruns, timing of expenditure and unforeseeable costs. Some of the costs that will need to be incurred on environmental matters are being dealt with in the refinery modernization program which is subject to a variety of additional risks. At present there can be no assurance that the above-referenced estimates or provisions included in the Financial Statements will be sufficient to meet the costs of the environmental issues INA Group faces or will face in future, and such costs could have a material adverse effect on the financial results and condition of INA Group. See "— INA Group's refineries require modernization and expansion".

The legal framework for environmental protection and operational safety is not yet fully developed in Croatia, as compared with the EU legislative framework. It is expected that stricter environmental requirements will be adopted in the near future, such as those governing discharges to air and water, the handling and disposal of solid and hazardous wastes, land use and reclamation and remediation of contamination, and that the environmental authorities may move towards a stricter interpretation of existing legislation. These developments have been taken into account in arriving at the above estimates.

Although INA Group is obliged to comply with all applicable environmental laws and regulations, it cannot, given the changing nature of environmental regulations and the technology it has, guarantee that it will be in compliance at all times. Any failure to comply with these environmental requirements could subject INA Group to, among other things, civil liabilities and penalty fees, and possibly temporary or permanent shutdown of its operations. INA Group can provide no assurance that it will not be required to strictly comply with the current environmental legislation or that future fines will not be higher than historical amounts, which could materially adversely affect the Company's business, prospects, financial condition or results of operations.

Although the Croatian Parliament has not ratified the Kyoto Protocol, which entered into force in February 2005, Croatia is a signatory, and it is anticipated that ratification will take place in 2008. The Kyoto Protocol is intended to limit or discourage emissions of greenhouse gasses, such as CO_2. The effect of such ratification is still unclear, as the level of permissible CO_2 emissions may reflect the fact that initial negotiations were commenced by the former Federal Republic of Yugoslavia. Accordingly, Kyoto compliance costs are unknown. Nonetheless, assuming that ratification occurs, the likely effect will be to increase costs for electricity and transportation, restrict emissions levels, impose added costs for emissions in excess of permitted levels, and increase costs for monitoring, reporting and financial accounting. As INA Group's business involves incurring certain of these costs, increases in such costs could have a material adverse effect on INA Group's business, prospects, financial condition and results of operations.

In addition, increasingly strict environmental requirements, including those relating to motor vehicle emissions, affect product specifications and operational practices. As a result, INA Group has begun to make significant modifications and capital expenditures at its refineries for them to produce more Eurograde products in the future. Failure to meet these specifications could have a material adverse effect on its business and results of operations. In addition, if further, more significant emission standards are imposed in the future, INA Group's competitors may be better-placed to respond to such new standards. See "— INA Group's refineries require modernization and expansion".

The Retail business segment's sales are seasonal and partially dependent on tourism.

Demand for certain oil products and natural gas varies according to the seasons. In the months of April to September, with the peak occurring in August (the "Tourist Season"), retail motor fuel sales are significantly higher, by volume and by number of transactions, particularly along coastal routes, than in the remaining months of the year, due to the influx of tourists to Croatia in this period. INA Group estimates that approximately 20 per cent. of motor fuel sales at its petrol stations are accounted for by foreign vehicles in the Tourist Season. The increased number of transactions at INA Group's petrol stations also leads to an increase in non-fuel sales at those sites during these periods. If the number of tourists coming to Croatia drops for any reason, then the resulting decrease in sales may have a material adverse effect on INA Group's business and results of operations.

INA Group faces competition from other oil and natural gas companies in all areas of its operations.

INA Group faces competition in all of its businesses. In the Exploration & Production business segment, INA Group competes outside of Croatia for exploration and development licenses and oil and natural gas production assets with other exploration and production companies. The Refining & Wholesale business segment is subject to competition from other refineries, particularly those in the Core Region. The Retail business segment is subject to growing competition, particularly in Croatia, as the market matures and the economy continues to grow. Failure to implement INA Group's new retail strategy could also prejudice its competitive strengths. INA Group's competitors include multinational and regional oil and natural gas companies with significantly greater financial resources and international operating experience. These companies may be able to pay more for exploration prospects, licenses, productive oil and natural gas assets and retail and marketing assets than INA Group can, and may be able to dedicate greater resources to the evaluation and implementation of growth opportunities. There can be no assurance that increased competition will not adversely affect INA Group's business, financial condition or results of operations.

INA Group's facilities and operations may be subject to international terrorist activity.

Like other industrial companies operating in the oil and natural gas sector, the facilities of INA Group may be the target of international terrorist activities. Although INA Group has implemented modern security measures at the Rijeka and Sisak refineries and its principal warehouses, these may not be sufficient to protect it against all types of terrorist attacks.

INA Group's operations are subject to potential losses that may not be covered by insurance.

INA Group's operations are subject to risks generally relating to the exploration for and production of oil and natural gas, including blowouts, fires, equipment failure and other risks that can result in personal injuries, loss of life and property and environmental damage. Offshore operations, in particular, are subject to a wide range of hazards, including capsizing, collision, bad weather and environmental pollution. In addition, INA Group's operation of refinery complexes, oil pipeline systems and storage and loading facilities subject it to the risks generally relating to such operations. The Rijeka refinery is located close to the seashore, in an area of natural beauty and tourism. The health, safety and environmental costs of any accident there could therefore be significant.

Although INA Group believes that it maintains adequate insurance with respect to its operations in accordance with applicable law and that INA Group's insurance policies will cover all material risks to which its businesses are subject, there can be no assurance that INA Group's insurance policies will cover all material risks to which its businesses are subject or that, if covered, such coverage will be adequate.

INA Group is in the process of implementing a new, integrated information technology system which may not achieve all of its expected benefits in accordance with the planned schedule or within budget.

INA Group's IT applications and business processes were developed over a long time to meet the specific needs of individual business units. As a result, activities were often duplicated and it was difficult to aggregate data from several systems with different structures. There was also no consistency of standards between business segments. Additional costs were incurred in the maintenance of different systems and multiple databases.

Since early 2005, INA Group's IT management began moving towards a centralized model, and subsidiary-level IT policies have been developed. However, the general IT control environment is not currently unified and there are no company-level policies covering IT security, business continuity, systems development and infrastructure management. An "i3" project implementation was launched in May 2005, involving both a fundamental reorganization of business processes and an implementation of an integrated SAP IT system at INA.

The SAP implementation project seeks to integrate INA's decentralized IT systems and to align business processes to extract the maximum business value at lowest cost. SAP is expected to address a number of the limitations of INA's current IT framework and is expected to improve management's information and financial monitoring capability. Implementation is expected to start in January 2007. The outcome of the project will greatly depend on meeting implementation deadlines, adhering to the budget and the quality of the project deliverables (for example, efficiency of redesigned business processes, appropriate functionality of the systems, data quality and level of preparedness of the users). While the implementation plan is presently on-schedule and on-budget, there can be no assurance that all of the expected benefits of the SAP IT system will be achieved in accordance with the planned schedule or within budget or that, once fully implemented, it will be successfully rolled out to other companies within INA Group. See "Business — Information Technology".

INA Group's major shareholders may continue to exercise significant influence over its strategic direction and major corporate actions.

Immediately following completion of the Offering, Croatia will own 53 per cent. less one share, the Fund of Croatian War Veterans of Homeland War and their Family Members (the "War Veterans' Fund") will own 7 per cent. and MOL Hungarian Oil and Gas Public Limited Company ("MOL") will own 25 per cent. plus one share of INA's outstanding share capital (or 51 per cent. minus one share, 7 and 25 per cent. plus one share, respectively, assuming the over-allotment option is exercised in full). On 17 July 2003, Croatia and MOL entered into a shareholders' agreement (the "Shareholders' Agreement") which provides for, among other things, common voting and certain transfer restrictions concerning their respective shareholdings in INA. This level of shareholding gives Croatia and MOL significant influence to determine the outcome of matters brought to shareholders for a vote, including matters such as approval of the annual financial statements, declarations of annual dividends, capital increases/decreases, amendments to INA's Articles of Association and the appointment/election and removal of the members of the Supervisory Board and the Management Board of INA. Four members of INA's Supervisory Board are currently representatives of Croatia, while two are representatives of MOL. Five members of the Management Board are nominated by Croatia and two members, including the Chief Financial Officer, are nominated by MOL. Croatia and MOL's combined ownership of shares in INA Group is not expected to fall below 75 per cent. after the completion of the Offering.

Croatia and MOL have also agreed that from 10 November 2006 (prior to which a prohibition on the payment of dividends was in place), Croatia's nominated members of the Management Board and Supervisory Board will not propose any dividend payment equal to or more than 25 per cent. of INA's net profit in the current financial year without MOL's prior written consent. This operates as a further limitation on the ability of other shareholders to influence INA's decisions. See "— Croatia, as a shareholder of INA, retains certain rights under the Law on Privatization of INA".

The Offering will not affect Croatia and MOL's obligations under the Shareholders' Agreement and, so long as Croatia and MOL retain significant ownership in INA's share capital, they will be able to influence these important corporate matters. The interests of Croatia and MOL may conflict with those of other shareholders. For further information, see "— Government regulation and intervention affect INA Group's business" and "Principal and Selling Shareholders and Related Party Transactions".

INA is subject to further privatization under the Law on Privatization of INA.

Pursuant to the Law on Privatization of INA, the privatization of INA is to be carried out in stages. Following completion of the Offering, the anticipated next stage of the privatization process is the sale of up to 7 per cent. of the shares of INA owned by Croatia to present and former employees of INA Group (defined in the Law on Privatization of INA as INA and its wholly-owned subsidiaries), which may not take place earlier than six months after the first sale of Shares in the Preferential Offering and the Non-Preferential Offering. In addition, the further sale of these shares will be prohibited for an additional six months. A further privatization of INA may be carried out in accordance with the Law on Privatization of INA at any time by a sale or swap of shares to a strategic investor or on the capital markets, pursuant to a Government decision with the prior approval of the Croatian Parliament. See "— Acquisitions of shares may trigger a mandatory takeover bid". The timing and extent of these sales could have an adverse effect on the trading price of the Shares and the GDRs. See "Regulation — Croatia — Law on Privatization of INA".

Croatia, as a shareholder of INA, retains certain rights under the Law on Privatization of INA.

Pursuant to the Law on Privatization of INA, Croatia has certain special rights in relation to INA:

- while Croatia is the owner of 50 per cent. or more of INA's shares, Government consent will be required for INA or its governing bodies to make decisions or enter into legal transactions relating to any sale or the entry into any joint venture with a value exceeding 3 per cent. of the value of INA's assets. While Croatia is the owner of 25 per cent. or more of INA's shares, the Government may decide that its consent will be required for any such decisions or transactions with a value exceeding 25 per cent. of the value of INA's assets;

- while Croatia owns 10 per cent. or more of INA's shares, none of the other shareholders (which would include holders of interests in the Shares) or their related parties may, without the prior specific consent of the Government, acquire gradually or at once, shares carrying voting rights at the general assembly of INA (the "General Assembly"), whose aggregate nominal value exceeds 10 per cent. (or any other percentage determined by the Government) of the share capital of INA, unless this acquisition forms part of a sale to the strategic investor (namely, MOL); and

- while Croatia owns one or more of INA's voting shares, INA or its governing bodies may only make decisions or enter into legal transactions relating to the dissolution of INA, a waiver of the operating permit, any authorization or any concession of interest to Croatia, a change of INA's name or the transfer of its registered office to a foreign jurisdiction, with the Government's prior consent. If any liquidation procedure is initiated in respect of INA or its legal successor, Croatia will have a right of first refusal over the purchase of all or part of INA's assets at estimated market value.

These rights of Croatia as a shareholder, exercised through the Government, may limit other shareholders' powers as shareholders, and the interests of Croatia and/or the Government may conflict with those of other shareholders. Although this may change as part of Croatia's accession to the EU, INA can provide no assurance in this regard. See "— INA Group's major shareholders may continue to exercise significant influence over its strategic direction and major corporate actions".

INA Group is exposed to changes in the taxes, royalties and customs duties imposed on its operations.

INA Group operates in several countries around the world, and any of these countries could modify its tax laws in ways that would adversely affect INA Group. INA Group is subject to, among others, corporate taxes, mineral resources exploitation fees, energy taxes, royalties, petroleum revenue taxes and customs and excise duties, each of which may affect its revenues and profits. In addition, INA Group is exposed to changes in fiscal regimes relating to mineral resources exploitation fees and taxes imposed on crude oil and natural gas production in the countries in which it operates. Significant changes in the tax regimes of the countries in which INA Group operates or in the level of production royalties it is required to pay could have a material adverse effect on its results of operations. See "— Government regulation and intervention affect INA Group's business".

Licenses material to the business of INA Group may be withdrawn or may need to be renewed.

INA Group's operations in Croatia are subject to licenses and approvals granted by the competent authorities in Croatia. See "Regulation — Croatia — Industry regulation". These licenses and approvals may, under certain circumstances specified in the applicable laws, be withdrawn prematurely by the competent authorities, but this has not occurred or been threatened to date.

Certain licenses granted to INA Group for the exploration of fields are close to expiry and will therefore need to be renewed in the near future. See "Business — Exploration & Production — Principal oil and natural gas regions". Many of the exploitation licenses for INA Group's mature fields do not have a stated expiry date. Based on its experience, INA Group believes that there is no time limitation on these production licenses.

The withdrawal of production licenses as a result of any alleged breaches of conditions or the non-renewal of licenses by the relevant authorities may have a material adverse effect on INA Group's business, financial condition and results of operations.

Certain of INA Group's permits and formal evidence of its ownership rights may be missing or deemed insufficient, defective or inadequate.

The permits and approvals which INA requires for its production facilities, refineries and petrol stations may be missing or deemed insufficient, defective or inadequate. If any permits or approvals are found to be missing, insufficient, defective or inadequate, INA could be subject to certain sanctions, although INA Group has not been subject to sanctions or suffered any material adverse effect on its business in this regard in the past, and does not expect to suffer any in the future. See "Regulation — Croatia — Industry regulation — Regulation of exploration for and exploitation of mineral resources — Exploitation" and "Regulation — Croatia — Environmental legislation".

Not every item of real estate that INA refers to in this prospectus as owned by INA Group is entered as such in the land registry, although this has not, in the past, led to any material challenges to INA Group's ownership of its assets. In addition, INA may not have adequate formal evidence of its ownership of certain assets, including some which may be subject to denationalization claims. Any successful denationalization claims are likely to result in shares in INA held by Croatia being transferred to claimants, and any such transfer is not expected to have any material adverse effect on INA Group or its business. For further details of these matters, see "Regulation — Croatia — Real estate legislation".

Croatia is seeking to accede to the EU.

Croatia is currently negotiating its accession to the EU. This process requires extensive political, judicial, administrative, economic, legislative, environmental and other reforms to be carried out to prepare Croatia for integration into the EU. Any significant slowing or suspension of negotiations for Croatia's accession to the EU may have a material adverse effect on Croatia's macro-economic performance and the pace of market liberalization, and consequently on INA Group and the growth of its business.

Competition laws and regulations applicable to INA and their method of enforcement currently accord with EU competition legislation, so no material changes are expected upon EU accession. However, any change in the competition analysis of INA Group's market, due to EU accession of Croatia and other countries in its Core Region, could have an adverse impact on INA Group's business.

INA Group may be affected by changes in the Croatian political environment, including as a result of the parliamentary elections due to be held in Croatia in 2007.

The next parliamentary elections in Croatia are expected to be held during 2007. INA Group's business may be affected by any changes in Government policy, including in relation to tariffs, price regulation, the regulation of the oil and natural gas industry, licensing and privatization. Any adverse impact on the Croatian economy or regulatory environment could have a material adverse effect on INA Group's business.

INA Group may not be able to control its employee costs.

INA Group has a significant degree of overstaffing in administrative functions, partially as a legacy of high historic employee numbers, and partially as a result of information technology, new working practices and product technology. The strength of the unions and a high level of union representation have in the past restricted, and may in the future restrict, INA's scope to reduce staff numbers and employee wages and related costs. If this situation continues to prevail, it may have a material adverse effect on the profitability of INA Group and its business, financial condition and results of operations.

INA Group is subject to strict competition rules, the violation of which may incur heavy penalties.

INA Group has a leading position in the Croatian market. Croatian competition regulations are in line with EU competition legislation and the Croatian Competition Agency applies criteria similar to those specified by EU competition regulations. Consequently, INA Group and all other legal entities which have a leading position in their respective markets are prohibited from abusing such a position if it is considered to be dominant.

Abusing a dominant position may consist of: directly or indirectly imposing unfair purchase or selling prices or other unfair trading conditions; limiting production, access to markets or technical development to the detriment of consumers; applying dissimilar conditions to equivalent transactions with other undertakings, thereby placing them at a competitive disadvantage; or making the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to common commercial usage, have no connection with the subject of such contracts.

In addition, Croatian competition regulations define "prohibited agreements" as all agreements between undertakings (including contracts, single provisions of agreements, explicit or tacit agreements, concerted practices, decisions on the associations of undertakings), the object or the effect of which is to prevent, restrict or distort competition in the relevant market, and in particular those which: (i) directly or indirectly fix purchase or selling prices or any other trading conditions; (ii) limit or control production, markets, technical development or investment; (iii) share markets or sources of supply, (iv) apply dissimilar conditions to equivalent transactions with other undertakings, thereby placing them at a competitive disadvantage and (vi) make the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts.

A breach of competition regulations may incur significant penalties, for example the penalty for entering into a prohibited agreement and abuse of a dominant position is up to 10 per cent. of the total value of revenues realized by the company in breach, in the year preceding the year in which the breach occurred.

In relation to proceedings brought against INA before the Croatian Agency for Protection of Market Competition, no violation of Croatian competition regulations has been determined against INA, except one set of proceedings in 2001 which related to entering into prohibited agreements. In this instance no penalties were imposed on INA.

In light of the high penalties prescribed for violation of competition regulations, should INA have to pay such penalties this could have a material adverse effect on its financial conditions and results of operations.

Risks Relating to the Shares and the GDRs

The possible volatility of the price of the Shares and GDRs may have an adverse impact on holders of Shares and GDRs.

The market price of Shares and, consequently, GDRs, may be volatile and subject to sudden and significant declines. As a result, shareholders may experience a material decline in the market price of Shares and, consequently, GDRs. Price declines can result from a variety of factors, including the difference between the results INA Group announces and forecasts by analysts; important contracts, mergers, acquisitions and strategic partnerships involving INA Group or its competitors; fluctuations in its financial condition and operating results; and general share price volatility on the ZSE.

The pre-emption rights granted to holders of Shares and GDRs may be unavailable to United States holders of Shares.

In the case of an increase in INA's capital, holders of Shares (including Shares represented by GDRs) are entitled to subscribe for new shares in INA and GDRs in proportion to their respective holdings even though such pre-emption rights may be restricted by a decision of the general assembly of INA. To the extent that pre-emption rights are granted, United States holders of Shares and GDRs may not be able to exercise such pre-emption rights unless a registration statement under the Securities Act is effective with respect to such rights or an exemption from the registration requirement thereunder is available.

INA's ability to pay dividends in the future will depend upon future earnings, financial conditions, cash flows, working capital requirements, capital expenditures and other factors.

The amount of future dividend payments, if any, will depend upon INA's future earnings, financial condition, cash flows, working capital requirements, capital expenditures and other factors. There can be no assurance that INA will have distributable funds in the future. In accordance with the Croatian Companies Act (the "Companies Act") and the prevailing practice in Croatia, dividends, if any, are generally paid only once a year and only after a general assembly of shareholders has approved INA's financial statements and the amount of the dividend proposed by the Management Board. See "Dividends and Dividend Policy".

Pursuant to the Shareholders' Agreement, Croatia and MOL agreed that INA may not pay any dividends until after 10 November 2006, unless Croatia and MOL otherwise agree. Croatia has agreed that, thereafter, the Supervisory Board and Management Board members nominated by Croatia will not, without the previous written consent of MOL, vote to propose any dividend payment to INA's general assembly that is equal to or exceeds 25 per cent. of the net profits of INA in the then current financial year. Croatia also undertook not to vote at INA's general assembly for any such proposal.

Acquisitions of shares may trigger a mandatory takeover bid.

Croatia currently owns 68 per cent. minus one share, MOL owns 25 per cent. plus one share and the War Veterans' Fund owns 7 per cent. of INA's shares. After the Offering, INA will become a public joint stock company and the provisions of the Takeover Act as defined in "The Zagreb Stock Exchange — Takeover Rules" will apply to INA and its shareholders. The Takeover Law obligates a person who owns more than 25 per cent. of the shares with voting rights in a public joint stock company (the "Offeror"), or a person acting jointly with the Offeror, to make a mandatory takeover bid for all of the remaining shares in that company if it, or a person acting jointly with it, acquires additional shares in the public joint stock company. Since Croatia and MOL have entered into a Shareholders' Agreement which provides for, among other things, common voting and certain transfer restrictions concerning their respective shareholdings in INA, Croatia and MOL are deemed to be acting jointly pursuant to the Takeover Law. Therefore, Croatia or MOL could be required to make a takeover bid in the event of Croatia's or MOL's purchase of additional shares, although given the privatization agenda of the Government, a takeover bid by Croatia is probably unlikely.

If such a mandatory takeover bid were to take place, shareholders who had acquired Shares in this Offering would have to choose between selling their Shares and, therefore, potentially not realizing the full extent of any future gains in the value of the Shares, and becoming a minority shareholder in a company potentially controlled by MOL. See "— INA is subject to further privatization under the Law on Privatization of INA".

Future sales of substantial amounts of the Shares or the GDRs, or the perception that such sales could occur, could adversely affect the market value of the Shares and the GDRs.

The market price of the Shares and, as a result, the GDRs, could fall due to sales of a large number of the Shares in the market, or the perception that such sales could occur. Prior to the Offering, Croatia owned 68 per cent. minus one share and MOL 25 per cent. plus one share, respectively, of INA's share capital, while the War Veterans' Fund owned 7 per cent. The market price of the Shares or GDRs could drop as a result of future sales of substantial amounts of shares in INA in the public market.

There has been no prior public market for the Shares or the GDRs.

Prior to this Offering, there has been no public market for any class of INA's securities. INA cannot offer any assurance that a market for the Shares or GDRs will develop or, if such a market does develop, that it will continue. After the Offering, INA expects that approximately 24 per cent. of INA's shares will be held by persons other than its controlling shareholders. The limited public market for the Shares and GDRs may impair the ability of holders to sell them in the amount and at the price and time such holders may wish to do so, and may increase the volatility of the price of the Shares or GDRs.

Investors' voting rights with respect to the Shares represented by the GDRs are limited by the terms of the Deposit Agreements for the GDRs and relevant legal requirements.

GDR holders will have no direct voting rights with respect to the Shares represented by the GDRs. They will be able to exercise voting rights with respect to the Shares represented by the GDRs only in accordance with the provisions of the Deposit Agreements relating to the GDRs and relevant legal requirements. See "Description of Share Capital and Summary of Articles of Association — Voting Rights" and "Description of the Global Depositary Receipts — Voting rights".

Failure by GDR holders to comply with a request for information may lead to the refusal to transfer the GDRs, the withholding of dividends or distributions of rights, the removal or limitation of voting rights or the sale or disposition of the Shares representing GDRs.

GDR holders and/or beneficial owners may from time to time be requested by INA or the Depositary on behalf of INA to provide information as to the capacity in which they hold the GDRs and the nature of their interest and the interest of any other affiliated person in such GDRs. Failure to comply with such request could cause the Depositary, at the instruction of INA, to withhold the execution, delivery or registration of transfer or cancellation of any GDR holding, withholding the distribution of any dividend or distribution of rights representing the entitlement to additional shares of INA or of the net proceeds of the sale thereof, removing or limiting voting rights or selling or disposing on behalf of a holder or beneficial owner, the Shares represented by the GDRs held by such holder or beneficial owners until such request is complied with, in each case to the Depositary's, the Registrar's and INA's reasonable satisfaction and subject to applicable law.

Shareholders may have limited recourse against the Selling Shareholder, INA and the members of Management.

The Selling Shareholder's and INA's presence outside the United States and the United Kingdom may limit shareholders' legal recourse against them. INA is incorporated under the laws of Croatia. The Selling Shareholder is Croatia, represented by the Government of Croatia. All of INA's current directors and executive officers reside outside the United States and the United Kingdom, principally in Croatia. All or a substantial portion of INA's assets and the assets of INA's current directors and executive officers are located outside the United States and the United Kingdom, principally in Croatia. As a result, shareholders may not be able to effect service of process within the United States or the United Kingdom upon the Selling Shareholder, INA or the members of Management or to enforce U.S. or U.K. court judgments obtained against INA, the members of Management or the Selling Shareholder in jurisdictions outside the United States and the United Kingdom, including actions under the civil liability provisions of U.S. securities laws.

In addition, it may be difficult for shareholders to enforce, in original actions brought in courts in jurisdictions outside the United States and the United Kingdom, liabilities predicated upon U.S. or U.K. securities laws, unless there is reciprocity with the relevant country relating to the enforcement of foreign judgments. Currently, no treaty providing for reciprocal recognition and enforcement of foreign court judgments in civil and commercial matters exists between Croatia and the United Kingdom or the United States and therefore formal reciprocity does not exist. In addition, the existence of practical reciprocity has not yet been considered by the Croatian authorities. These limitations may deprive shareholders of effective legal recourse for claims related to shareholders' investments in the Shares and GDRs.

The Deposit Agreements provide for actions brought by any party thereto against INA to be settled by the Courts in England and New York State or any federal court located in the Borough of Manhattan, New York City.

The Croatian securities market is smaller, less liquid and more volatile than major securities markets and there are restrictions on transfers of the GDRs.

The securities market in Croatia is substantially smaller, less liquid and significantly more volatile than major securities markets in the United States or the United Kingdom. As at 30 June 2006, only seven equity securities were listed on the Official Market (first quotation) of the ZSE and a further 192 equity securities were quoted on the Public Joint-stock Company Market and the Parallel Securities Market of the ZSE, of which 105 were traded. Further, approximately 410 equity securities were quoted (of which approximately 180 were traded) on the Varaždin Stock Exchange. A small number of companies represent a disproportionately large percentage of market capitalization and trading volumes and this tends to decrease the liquidity and increase the volatility of the Croatian securities market. The fact that the GDRs are listed in London will not avoid the effect on the Share price (and the corresponding effect on the GDR price) of this volatility.

Following the Offering, the Joint Bookrunners intend to make a market (subject to the restrictions described in "Plan of Distribution") in the Shares and the GDRs, although no assurance can be given that they will do so or that such market-making activity, if commenced, will continue. There can be no assurance that the Offer Price per GDR will correspond to the price at which the Shares trade in the public market in Zagreb or elsewhere subsequent to the Offering, or vice versa. Factors such as changes in the results of operations of both INA Group and its competitors and changes in general conditions in the oil and natural gas industry, the overall economy, the political situation and the financial markets could cause the price of the Shares and GDRs to fluctuate substantially. Furthermore, international securities markets have experienced significant price and volume fluctuations in recent years. Such fluctuations in the future could adversely affect the market price of the Shares, and, therefore, the GDRs without regard to the results of operations or financial condition of INA Group. Transfers of the GDRs are subject to significant restrictions. See "Transfer Restrictions".

THE OFFERING

The following description is a summary of the principal terms of the Offering. This summary is derived from, and should be read in conjunction with, the full text of the sections entitled "Description of the Global Depositary Receipts" and "Plan of Distribution".

INA: INA — Industrija Nafte d.d. Zagreb, registered in the court register of the Commercial court in Zagreb under number (MBS) 080000604, with registered offices in Zagreb, Avenija V. Holjevca 10, 10002 Zagreb, founded under the Law on Foundation of the Public Company INA — Industrija Nafte (Official Gazettes 42/1990 and 61/1991), registered in the court register of the Commercial court in Zagreb on 31 October 1990 and transformed into a joint stock company on 23 July 1993.

The Selling Shareholder: Croatia, represented by the Government of Croatia.

The Offering: 1,500,000 Shares are being made available for sale by the Selling Shareholder in a public offering comprising the Preferential Offering and, to the extent all of the Shares are not sold in the Preferential Offering, the Non-Preferential Offering.

The Preferential Offering: 1,500,000 Shares are being made available for sale by the Selling Shareholder to Croatian citizens with the priority rights and on the preferential terms specified in the Government's decision dated 14 September 2006 and as further amended.

The Non-Preferential Offering: To the extent that any of the 1,500,000 Shares are not taken up in the Preferential Offering, the remaining Shares shall be made available for sale by the Selling Shareholder in a public offering in Croatia to natural persons, domestic legal persons and foreign investors in Croatia (other than the Managers) without any priority rights or preferential terms. Any remaining Shares that have not been sold in the Non-Preferential Offering in accordance with the preceding sentence may be sold to the Managers. Any Shares purchased in the Non-Preferential Offering by the Managers may be resold, in the form of Shares or GDRs:

(i) to institutional investors outside the United States in "offshore transactions" in reliance on Regulation S; and

(ii) in the United States only to QIBs in reliance on Rule 144A.

Over-allotment Option: The Selling Shareholder has granted to the Joint Bookrunners, on behalf of the Managers, an over-allotment option, exercisable, subject to demand in the Preferential Offering, on one occasion only for a period of 30 days from the Pricing Date, to purchase, in the Non-Preferential Offering, up to 200,000 additional Shares at the Offer Price referred to below, solely to cover over-allotments, if any, in the Offering and to cover short positions resulting from stabilization activities. See "Plan of Distribution".

The Shares: INA's share capital consists of 10,000,000 ordinary shares, all of which are fully paid and issued, with a nominal value of HRK 900 each. The Shares have the rights described under "Description of Share Capital and Summary of Articles of Association". All Shares to be sold in the Preferential Offering and the Non-Preferential Offering shall be fully fungible with each other and all other Shares outstanding as of the Closing Date, including with regards to trading and settlement, and shall rank *pari passu* with each other and all other shares outstanding as of the Closing Date.

The GDRs: Each GDR will represent one Share on deposit with the Custodian. The GDRs will be issued by the Depositary pursuant to one of two separate deposit agreements, one relating to the Rule 144A GDRs (the "Rule 144A Deposit Agreement") and one relating to the Regulation S GDRs (the "Regulation S Deposit Agreement"), among INA and the Depositary. The Rule 144A Deposit Agreement and the Regulation S Deposit Agreement are herein collectively referred to as the "Deposit Agreements". The Regulation S GDRs will be evidenced initially by a Master Regulation S GDR (the "Master Regulation S GDR") and the Rule 144A GDRs will be evidenced initially by a Master Rule 144A GDR (the "Master Rule 144A GDR"), each to be issued by the Depositary pursuant to the relevant Deposit Agreement. The Master Regulation S GDR and the Master Rule 144A GDR are herein referred to as the "Master GDRs". Pursuant to the Deposit Agreements, the Shares represented by the GDRs will be held in Croatia by Zagrebačka banka, d.d., as Custodian on the securities account with CDA, for the benefit of the Depositary and, for the further benefit of, the holders and beneficial owners of GDRs.

Except in the limited circumstances described in this prospectus, definitive GDR certificates will not be issued to holders in exchange for interests in the GDRs represented by the Master GDRs. Subject to the terms of the Deposit Agreements, interests in the Master Regulation S GDR may be exchanged for interests in the corresponding number of GDRs represented by the Master Rule 144A GDR, and vice versa. See "Description of the Global Depositary Receipts," and "Transfer Restrictions".

Offer Price: HRK 1,690 per Share. The Offer Price for the Shares to be sold by the Selling Shareholder has been determined by the Government following receipt of all offers in the Preferential Offering and the completion of the book-building process in the Non-Preferential Offering.

The offer price for the GDRs is U.S.$303.41 per GDR.

Closing Date: 1 December 2006.

Listing and Market for the Shares and GDRs: HANFA approved the publication of information which INA is required to publish, in accordance with Article 96 of the CSMA on the listing of INA's ordinary shares on the Official Market of ZSE, and which is contained in this prospectus. HANFA issued its approval on 10 November 2006. The listing of all of INA's ordinary shares on the Official Market of the ZSE is expected to become effective on 1 December 2006 and trading in the Shares is expected to commence on the ZSE on 1 December 2006.

Applications have been made (i) to the U.K. Listing Authority for a listing of 4,800,000 GDRs, consisting of up to 1,500,000 GDRs to be issued on the Closing Date, up to 200,000 additional GDRs to be issued pursuant to the over-allotment option, as described herein, and up to 3,100,000 additional GDRs to be issued from time to time against the deposit of Shares with the Depositary, to be admitted to the Official List and (ii) to the London Stock Exchange for such GDRs to be admitted to trading on the Regulated Market. Application has also been made to have the Rule 144A GDRs traded on PORTAL. Prior to the Offering, there has been no public market for the GDRs or the Shares. Admission of the GDRs to the Official List and to trading on the Regulated Market is expected to take place on 1 December 2006, following closing and settlement therefore on the Closing Date.

Upon completion of the Offering and assuming exercise of the over-allotment option in full and that all Shares offered thereunder are ultimately held in the form of GDRs, an additional 3,100,000 Shares may be deposited, subject to the provisions set forth under "Description of the Global Depositary Receipts" and in the Deposit Agreements, with the Custodian against which the Depositary shall issue GDRs representing such Shares. The maximum aggregate number of GDRs that can be issued under the GDR program may be increased up to the 4,800,000 permitted under U.K. Listing Authority block listing. The maximum aggregate number of GDRs may be further increased from time to time on application by INA to the UKLA and the London Stock Exchange if and to the extent any such additional GDRs are admitted to the Official List and the Regulated Market.

Settlement Procedures — Shares: . . . . The Shares purchased in the Offering are expected to be delivered by the Selling Shareholder to the purchasers, which may include Managers, by means of book-entry registration to the securities account kept with the CDA against payment therefor in Zagreb, Croatia on the Closing Date.

Settlement Procedures — GDRs: . . . . . The Joint Bookrunners have applied to DTC to have the Rule 144A GDRs accepted into DTC's book-entry settlement system. Upon acceptance by DTC, a single Master Rule 144A GDR will be held in book-entry form and will be issued to DTC and registered in the name of Cede & Co., as nominee for DTC. The Master Regulation S GDR will be registered in the name of Citivic Nominees Limited, as nominee for Citibank, N.A. (London Branch), as common depositary for Euroclear and Clearstream. Euroclear and Clearstream are expected to accept the Regulation S GDRs for settlement in their respective book-entry settlement systems. Except in limited circumstances described herein, investors may hold beneficial interests in the GDRs evidenced by the corresponding Master GDR only through DTC, Euroclear or Clearstream, as applicable.

Transfers within DTC, Euroclear and Clearstream will be in accordance with the usual rules and operating procedures of the relevant system. See "Description of the Global Depositary Receipts — Settlement and safekeeping".

Use of Proceeds: . . . . INA will not receive any of the proceeds from the Offering. All of the net proceeds from the sale of the Shares by the Selling Shareholder in the Offering will be for the account of the Selling Shareholder. Certain expenses associated with the Offering will be paid by the Company. See "Use of Proceeds".

Lock-up: . . . . INA, the Selling Shareholder, MOL and the War Veterans' Fund have agreed, for a period of 180 days after the Pricing Date, subject to certain limited exceptions, not to offer, sell, contract to sell, pledge, charge, grant options over or otherwise dispose of (or publicly announce any such offer, sale, contract to sell, pledge, charge, option or disposal of), directly or indirectly, any of the ordinary shares of INA or securities convertible or exchangeable into or exercisable for any of the ordinary shares or warrants or other rights to purchase the ordinary shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the ordinary shares, including equity swaps, forward sales and options or GDRs representing the right to receive any of the ordinary shares, without prior written consent of the Joint Bookrunners, on behalf of the Managers. See "Plan of Distribution".

Dividend Policy: . . . . INA does not presently intend to pay a dividend in respect of the 2006 financial year, and recommendations as to dividends in future years will depend upon the investment plans of INA Group.

Financial obligations of INA towards the owners of the Shares, including the holders of the Shares represented by GDRs, shall be settled through the Central Depository Agency ("CDA") with registered offices at Heinzelova 62a, 10002 Zagreb, P.O. Box 409, Croatia. There is no guarantor for the fulfillment of INA's obligations under the Shares and GDRs.

Taxation: For a discussion of certain tax considerations relevant to an investment in the Shares or GDRs, see "Taxation".

General Information: The security numbers for the Shares offered hereby and the GDRs are as follows:

Shares:	Ticker:	INA-R-A
	ISIN:	HRINA0RA0007
	CFI:	ESVUFR
Regulation S GDRs:	CUSIP:	45325E201
	ISIN:	US4532E2019
	Common Code:	027693008
Rule 144A GDRs:	CUSIP:	45325E102
	ISIN:	US45325E1029
	Common Code:	027692818
London Stock Exchange GDR trading symbol:	HINA	
PORTAL Rule 144A GDR listing symbol:	11NRPC2	

Risk Factors: For a discussion of certain risk factors that should be taken into account in deciding whether to invest in the Shares and GDRs, please refer to "Risk Factors".

USE OF PROCEEDS

INA will not receive any of the proceeds from the Offering. All of the net proceeds from the sale of the Shares offered by the Selling Shareholder in the Offering will be for the account of the Selling Shareholder. The Offering is being conducted in accordance with the Law on Privatization of INA, and in order to allow the Selling Shareholder to dispose of a portion of its shareholding, while providing increased trading liquidity in the Shares and raising the profile of INA with the international investment community. See "Regulation — Croatia — Law on Privatization of INA".

INA will pay certain expenses associated with the Offering, amounting, in aggregate, to HRK 45.9 million.

DIVIDENDS AND DIVIDEND POLICY

The amount of future dividend payments, if any, will depend upon INA's future earnings, financial condition, cash flows, working capital requirements, capital expenditures and other factors. There can be no assurance that INA will have distributable funds in the future. In accordance with the Companies Act and the prevailing practice in Croatia, dividends, if any, are generally paid only once a year and only after a general assembly of shareholders has approved INA's financial statements and the amount of the dividend proposed by the Management Board. See "Description of Share Capital and Summary of Articles of Association — Dividends". However, in accordance with the Companies Act as well as INA's Articles of Association, the Management Board, with approval of the Supervisory Board, is authorized to pay an advance on the dividend if the following conditions are satisfied: (i) there is predictable net profit for the current year and (ii) the income statement for the previous financial year shows a profit.

Pursuant to the Shareholders' Agreement entered into by Croatia and MOL on 17 July 2003, following the sale of 25 per cent. plus one share of INA's share capital to MOL in the first stage of INA's privatization, INA will not pay any dividends or make any other distributions until 10 November 2006 (the "Dividend Start Date"), unless Croatia and MOL otherwise agree. Croatia has also undertaken that it will use its reasonable efforts to procure that from the Dividend Start Date until the termination of the Shareholders' Agreement, its nominated members of the Supervisory Board and the Management Board will not vote to propose at a shareholders' meeting any dividend payment that is equal to, or more than, 25 per cent. of the net profits of INA for the then current financial year, nor shall Croatia vote at any such shareholders' meeting to approve such a proposal, without MOL's prior written consent. See "Description of Share Capital and Summary of Articles of Association — Dividends".

Holders of Shares (including Shares represented by the GDRs) will be entitled to receive any dividends payable in respect of the Shares.

INA anticipates that any dividends it may pay in the future in respect of the Shares represented by the GDRs will be declared and paid to the Depositary in HRK and will be converted into U.S. dollars by the Depositary and distributed to holders of the GDRs, net of the Depositary's fees and expenses. Accordingly, the value of dividends received by holders of the GDRs will be subject, *inter alia*, to fluctuations in the exchange rate between the HRK and the U.S. dollar.

INA does not presently intend to pay a dividend in respect of the 2006 financial year, and recommendations as to dividends in future years will depend upon the investment plans of INA Group.

SELECTED FINANCIAL INFORMATION

The following selected consolidated financial data of INA Group should be read in conjunction with, and are qualified by reference to, "Operating and Financial Review" and the Consolidated Financial Statements and notes thereto included elsewhere in this prospectus.

	Year ended 31 December				Six months ended 30 June		
	2003	2004	2005	2005	2005	2006	2006
	(Restated)	(Restated) (in HRK millions)		(U.S.$ millions)(1)	(Unaudited) (in HRK millions)	(Unaudited)	(U.S.$ millions)(1)
Income Statement Data							
Sales revenue							
a) Domestic	10,660	11,766	13,690	2,301	6,159	6,878	1,156
b) Exports	4,685	6,222	7,380	1,240	2,941	3,904	656
Total sales revenue	15,345	17,988	21,070	3,541	9,100	10,782	1,812
Income from own consumption of products and services	616	447	636	107	115	342	57
Other operating income	495	489	554	93	243	319	54
Total operating income	16,456	18,924	22,260	3,741	9,458	11,443	1,923
Changes in inventories of finished products and work in progress	(94)	100	508	85	116	92	15
Cost of raw materials and consumables	(7,336)	(8,293)	(11,024)	(1,853)	(4,538)	(5,382)	(905)
Depreciation and amortization	(1,010)	(1,001)	(993)	(167)	(505)	(543)	(91)
Other material costs	(2,033)	(2,028)	(2,206)	(371)	—	—	—
Service costs	(972)	(955)	(1,008)	(169)	(1,200)	(1,627)	(273)
Staff costs	(1,899)	(1,969)	(2,257)	(379)	(1,084)	(1,155)	(194)
Cost of other goods sold	(2,366)	(2,794)	(3,307)	(556)	(1,486)	(1,916)	(322)
Impairment charges (net)	(537)	(409)	(475)	(80)	(212)	(235)	(39)
Provisions for charges and risks	(14)	(152)	(88)	(15)	(49)	(9)	(2)
Operating expenses	(16,261)	(17,501)	(20,850)	(3,504)	(8,958)	(10,775)	(1,811)
Profit from operations	195	1,423	1,410	237	500	668	112
Share in the profit of associated companies	15	23	73	12	—	—	—
Investment revenue	783	354	181	30	175	346	58
Finance costs	(455)	(367)	(518)	(87)	(262)	(237)	(40)
Net profit/(loss) from financial activities	328	(13)	(337)	(57)	(87)	109	18
Profit for the year before taxation	538	1,433	1,146	193	413	777	131
Current taxes	(4)	(313)	(236)	(40)	(114)	(144)	(24)
Deferred taxes	60	10	(25)	(4)	40	(3)	(1)
Profit/(Loss) for the year	594	1,130	885	149	339	630	106

Note:

(1) The financial data for the year ended 31 December 2005 and for the six months ended 30 June 2006 has been translated for convenience only into U.S. dollars at the average Kuna/U.S.$ exchange rate in effect in the relevant period, as announced by the Croatian National Bank, of HRK 5.95 = U.S.$1.00.

	Year ended 31 December				Six months ended 30 June		
	2003	2004	2005	2005	2005	2006	2006
	(Restated)	(Restated)		(U.S.$ millions)(1)	(Unaudited)	(Unaudited)	(U.S.$ millions)(1)
	(in HRK millions)				(in HRK millions)		
Balance Sheet Data							
Assets							
Non-current assets							
Intangible assets	862	1,351	551	88	491	432	75
Property, plant and equipment	9,330	10,017	12,009	1,928	10,965	12,508	2,160
Investments in associates and joint ventures	143	144	58	9	206	57	10
Investments in other companies	88	59	54	9	56	47	8
Long-term receivables	238	218	204	33	215	197	34
Derivative financial instruments	201	135	225	36	336	217	37
Deferred tax	87	117	92	15	157	88	15
Available for sale assets	321	211	256	41	252	358	62
Total non-current assets	11,270	12,252	13,449	2,159	12,678	13,904	2,401
Current assets							
Inventories	2,500	2,350	3,442	552	3,184	3,590	620
Trade receivables net	1,938	1,983	2,304	370	2,018	2,191	378
Other receivables	237	200	262	42	138	204	35
Derivative financial instruments	74	149	64	10	35	88	15
Other current assets	74	15	57	9	56	50	9
Prepayments and advances	87	157	341	55	125	245	42
Cash with bank and in hand	334	714	376	60	474	396	68
Total current assets	5,244	5,568	6,846	1,099	6,030	6,764	1,168
Total assets	16,514	17,820	20,295	3,258	18,708	20,668	3,570
Equity and liabilities							
Capital and reserves							
Share capital	9,000	9,000	9,000	1,445	9,000	9,000	1,554
Revaluation reserve	—	(141)	(96)	(15)	(101)	5	1
Other reserves	2,391	2,349	2,390	384	2,381	2,356	407
Retained earnings/ (Deficit)	(1,576)	(446)	483	78	(63)	1,113	192
Equity attributable to equity holder of the parent	9,815	10,762	11,777	1,890	11,217	12,474	2,154
Minority interests	6	6	6	1	6	6	1
Total equity	9,821	10,768	11,783	1,891	11,223	12,480	2,155
Non-current liabilities							
Long-term loans	1,125	842	748	120	688	1,123	194
Other non-current liabilities	219	178	162	26	170	158	27
Employee benefits obligation	53	56	71	11	39	73	13
Long-term provisions	1,179	1,443	1,759	282	1,379	1,388	240
Total non-current liabilities	2,576	2,519	2,740	440	2,276	2,742	474

	Year ended 31 December				Six months ended 30 June		
	2003	2004	2005	2005	2005	2006	2006
	(Restated)	(Restated) (in HRK millions)		(U.S.$ millions)[1]	(Unaudited) (in HRK millions)	(Unaudited)	(U.S.$ millions)[1]
Current liabilities							
Bank loans and overdrafts	487	345	958	154	1,014	1,220	211
Current portion of long-term debt	449	462	476	76	461	290	50
Accounts payable	2,099	2,202	3,239	520	2,349	2,893	500
Taxes and contributions	782	1,062	592	95	741	598	103
Other short-term liabilities	146	143	184	30	298	196	34
Accruals and deferred income	140	106	167	27	253	135	23
Employee benefits obligation	9	11	7	1	6	6	1
Short-term provisions	5	202	149	24	87	108	19
Total current liabilities	4,117	4,533	5,772	926	5,209	5,446	941
Total liabilities	6,693	7,052	8,512	1,366	7,485	8,188	1,414
Total equity and liabilities	16,514	17,820	20,295	3,258	18,708	20,668	3,570

Note:

(1) The financial data as of 31 December 2005 and 30 June 2006 has been translated for convenience only into U.S. dollars at the Kuna/$ exchange rates in effect on 30 December 2005 and 30 June 2006, as announced by the Croatian National Bank, of HRK 6.23 = U.S.$1.00 and HRK 5.79 = U.S.$1.00, respectively.

	As of and for the year ended 31 December			As of and for the six months ended 30 June	
	2003	2004	2005	2005	2006
	(in HRK millions except for percentages)				
Other Operating Data					
EBITDA[1]	1,756	2,985	2,966	1,266	1,455
Net cash from operating activities	1,608	3,036	1,249	248	769
Total capital expenditure	2,159	2,316	2,132	787	1,254
Return on equity (ROE) %[2]	6.0	10.5	7.5	6.0	10.1
Return on capital employed (ROCE) %[3]	1.7	12.2	10.4	7.7	9.1

Notes:

(1) Earnings before interest, taxes, depreciation and amortization ("EBITDA") is a financial measure that has not been prepared in accordance with IFRS, and prospective investors should not consider it as an alternative to the applicable IFRS measure. EBITDA is equivalent to profit from operations, before the deduction of depreciation and amortization and impairment and provision charges (net). EBITDA excludes INA's share in the profit of associated companies. See "Presentation of Financial and Other Information — Non-GAAP financial measures".

The table below is a reconciliation of EBITDA to profit from operations for the three years ended 31 December 2005 and the six months ended 30 June 2005 and 2006.

	For the year ended 31 December			For the six months ended 30 June	
	2003	2004	2005	2005	2006
	(in HRK millions)				
Profit from operations	195	1,423	1,410	500	668
Add:					
Depreciation and amortization	1,010	1,001	993	505	543
Impairment and provision charges (net)	551	561	563	261	244
EBITDA	1,756	2,985	2,966	1,266	1,455

(2) Calculated as profit for the year divided by total equity as of year end.

(3) Calculated as profit from operations divided by total equity plus net debt where net debt equals long-term loans plus bank loans and overdrafts plus current portion of long-term debt less cash with bank and in hand as of year end.

Key Operating Statistics

	As of and for the year ended 31 December			As of and for the six months ended 30 June
	2003	2004	2005	2006
Exploration & Production				
2005 proved and probable reserves				
— crude oil and natural gas condensate (MMbbl)			121.8	
— natural gas (MMboe)			264.0	
Total hydrocarbons (MMboe)			385.8	
Average daily production				
— crude oil (Mbbl/d)	17.8	16.8	16.8	15.1
— natural gas (MMcf/d)	179.0	178.5	177.8	188.2
— natural gas condensate (Mbbl/d)	7.7	7.7	7.4	8.3
Total hydrocarbons (Mboe/d)	55.3	54.3	53.8	54.8
Domestic natural gas sales (Bcf)	95.8	101.3	97.2	50.2
Natural gas imports (Bcf)	40.1	37.2	39.9	19.5
Refining & Wholesale				
Refining capacity excluding lubricants (MMt)	8.5	8.5	8.5	8.5
Refining throughput excluding lubricants (MMt)	5.1	5.3	5.0	2.2
Retail				
Number of petrol stations(1)	405	410	410	409
Retail sales volume (Mt)(2)	1,056	1,049	1,090	516

Notes:

(1) Excluding 65 petrol stations operated by Crobenz d.d., INA-Osijek Petrol d.d., Holdina d.o.o. Sarajevo, InterINA d.o.o. Mostar and InterINA d.o.o. Ljubljana.

(2) Including motor fuel and heating oil (extra light).

OPERATING AND FINANCIAL REVIEW

The financial information set forth below has been extracted without material adjustment from, and should be read in conjunction with, the Audited Financial Statements and the Unaudited Financial Statements and, in certain cases, extracted from management accounts, other INA Group financial or operational data or analysis specially prepared for this prospectus. The Audited Financial Statements have been derived from the audited historical consolidated financial statements of INA Group and adjusted as described under "— Critical Accounting Policies — Change in accounting policy: accounting for geological and geophysical (G&G) costs" and "— Correction of prior period error: capitalization of unrecorded upstream well costs". In addition, for the purpose of this Prospectus, the Audited Financial Statements and the Unaudited Financial Statements include additional disclosures for segment reporting as required by IAS 14 — Segment Reporting on the basis of the components of INA Group that (a) provide a single product or service or group of related products and services and (b) are subject to risks and returns that are different from those of the other business segments. The business segment reporting prepared for this prospectus and for the purposes of future reporting has incorporated subsidiaries within the business segments, whereas historically INA Group has internally reported its subsidiary results separately from those of INA. Certain analyses supporting the new business segmentation have been prepared specially for this prospectus and are estimates and approximations and are subject to possible change, including in some cases as part of an audit process; nevertheless, INA Group does not expect the changes to be material. Future reporting of business segments will be prepared on the same basis through INA's formal reporting processes, which are being adapted accordingly.

This discussion includes forward-looking statements that involve risks and uncertainties. Actual results may differ materially from those contained in or implied by any forward-looking statements as a result of numerous factors, including the risks discussed under the heading "Risk Factors" included elsewhere in this prospectus.

Overview

INA and its consolidated subsidiaries comprise one of the largest vertically integrated oil and gas companies in South Eastern Europe (as defined in "INA Group's Market Environment — The South Eastern European Oil and Gas Industry") as measured by total proved reserves and production, refining capacity and volume of oil products sold. INA is also one of the largest industrial companies based in its Core Region as measured by revenues. In 2005, INA Group generated sales of HRK 21,070 million and profit from operations of HRK 1,410 million. For the six months ended 30 June 2006, INA Group generated sales of HRK 10,782 million and profit from operations of HRK 668 million.

INA Group is principally active in the three core business segments: Exploration & Production, Refining & Wholesale and Retail, as well as a fourth non-core business segment, Corporate and Other.

Exploration & Production

The Exploration & Production business segment comprises INA Group's exploration, development and production operations relating to crude oil, natural gas liquids ("NGLs"), gas condensate and natural gas onshore and offshore Croatia and in certain other countries in the Middle East and Africa. The results of the Exploration & Production business segment also include the results of Crosco, an integrated onshore and offshore drilling and well services contractor that provides services to INA's Exploration & Production business segment and third parties.

The Exploration & Production business segment produced approximately 6.1 MMbbl of crude oil in 2005, of which 4.7 MMbbl was domestically produced and 1.4 MMbbl was produced abroad. Production of crude oil by the Exploration & Production business segment in the six months ended 30 June 2006 amounted to approximately 2.7 MMbbl in total, of which 2.3 MMbbl was domestically produced and 0.4 MMbbl was produced abroad. INA Group currently only sells crude oil produced at its fields in Angola once in the fourth quarter of each year due to the small quantities of crude oil involved. Although INA recognizes the costs associated with its production on a quarterly basis, it only recognizes sales revenues at the time the crude oil produced is sold. Crude oil and gas condensate represented 44 per cent. of the Exploration & Production business segment's 2005 production, and natural gas represented approximately 56 per cent. of INA Group's production. As of 31 December 2005, INA Group had estimated proved hydrocarbon reserves of approximately 245 MMboe, and estimated proved and probable hydrocarbon reserves of approximately 386 MMboe. The business segment also imports natural gas from Russia and sells this natural gas and the natural gas it produces from its fields onshore and offshore Croatia to eligible customers and distributors to tariff customers in Croatia. In 2005, INA Group sold 97.2 Bcf of natural gas in Croatia, of which 40 Bcf was imported from Russia.

During the three years ended 31 December 2005, approximately 95 per cent. of the Exploration & Production business segment's hydrocarbon production came from onshore and offshore Croatia, with the remainder coming from its stakes in international oil and natural gas fields, which were principally located in Egypt and Angola. INA Group's fields in Syria are not yet in full commercial production but are considered by the Group to be particularly important for the future. INA Group's internationally produced crude oil is sold directly by the Exploration & Production business segment abroad, while its domestically produced crude oil is sold to its Refining & Wholesale business segment for the production of refined products to be sold to Croatian and certain South Eastern European wholesale customers, and also on the Mediterranean market. In 2005, the Exploration & Production business segment contributed HRK 6,607 million, or 23.3 per cent., to INA Group sales (prior to inter-segment eliminations) and HRK 1,562 million, or 77.1 per cent., to INA Group profit from operations (prior to Corporate and Other business segment losses).

Refining & Wholesale

The Refining & Wholesale business segment refines crude oil and other feedstocks into oil derivatives and petroleum products. The business segment then sells these products and imported oil derivatives to INA Group's Retail business segment and directly to industrial and wholesale customers in Croatia and other South Eastern European countries such as Slovenia, Hungary, Bosnia and Herzegovina, Macedonia, Serbia and Montenegro, as well as on the Mediterranean market.

The business segment also includes the results of certain subsidiaries of INA, which carry out similar businesses to the Refining & Wholesale business segment. The most material subsidiaries are Proplin d.o.o. ("Proplin") (purchasing, transporting, bottling and selling LPG); InterINA Limited London and InterINA Guernsey, which engage in purchasing crude oil from third parties for the Refining & Wholesale business segment and selling refined products to third parties; and certain subsidiaries which operate petrol stations, although they are mainly wholesale businesses. These latter subsidiaries include Crobenz d.d. ("Crobenz") and INA-Osijek Petrol d.d. ("INA-Osijek Petrol"), which operate in aggregate 18 petrol stations in Croatia; Holdina d.o.o. Sarajevo ("Holdina Sarajevo") and Interina Mostar, which operate in aggregate 41 petrol stations in Bosnia and Herzegovina; and Interina d.o.o. Ljubljana ("Interina Ljubljana"), which operates six petrol stations in Slovenia.

In 2005, the Refining & Wholesale business segment obtained approximately 18 per cent. of its crude oil and other feedstock requirements from the Exploration & Production business segment and imported the remainder of its crude oil requirements. INA Group owns and operates the only two fuel refineries in Croatia, as well as two lubricant plants. In 2005, the Refining & Wholesale business segment sold a total of 4.9 MMt of oil derivatives, of which 3.0 MMt were sold to the domestic market (1.1 MMt to the Retail business segment and 1.9 MMt to commercial and industrial customers) and 1.9 MMt to the international market. Of the oil derivatives sold, 4.5 MMt were produced by the Refining & Wholesale business segment and 0.4 MMt were imported. The Refining & Wholesale segment is the largest contributor to INA Group sales, having contributed HRK 15,724 million, or 55.6 per cent., to INA Group sales (prior to inter-segment eliminations) and HRK 399 million, or 19.7 per cent., to INA Group profit from operations (prior to Corporate and Other business segment losses) in 2005.

Retail

The Retail business segment distributes and markets motor fuels and various other ancillary products to retail consumers, primarily in Croatia, through INA Group's nationwide network of petrol stations. As noted under Refining & Wholesale above, while INA Group has a total of 427 petrol stations in Croatia, the results of the Retail business segment only include sales of 409 petrol stations in Croatia (397 of which are owned and 12 of which are leased), and do not include the results of any petrol stations outside of Croatia. Based on Croatian Energy Institute "Hrvoje Pozar" market data, INA Group had market shares in Croatia of 60.3 per cent. in terms of the number of petrol stations and 64.1 per cent. based on fuel volumes sold in 2005. In 2005, the Retail business segment contributed HRK 4,994 million, or 17.6 per cent., to INA Group sales (prior to inter-segment eliminations) and HRK 65 million, or 3.2 per cent., to INA Group profit from operations (prior to Corporate and Other business segment losses).

Corporate and Other

In addition to the three business segments described above, INA Group's results include a fourth non-core business segment.

"Corporate" refers to Corporate Functions, which is a cost center of INA Group and provides support services to the other three business segments within INA Group. Corporate Functions comprises four sub-functions that are each headed by a member of the Management Board. Each of these four sub-functions operates as a separate department. All INA Group funding costs that are not allocated to the other business segments appear under Corporate Functions.

"Other" refers to any INA Group activities which do not fall into the three core business segments described above, including the maintenance engineering activities which are performed by STSI d.o.o. ("STSI") and the safety and security services performed by Sinaco d.o.o. ("Sinaco") for the three core business segments. In addition, for historical reasons, some of INA Group's subsidiaries are engaged in a number of non-core activities such as car rental, hotels and tourism, which are not material to INA Group results.

In 2005, the Corporate and Other business segment contributed HRK 973 million, or 3.4 per cent., to INA Group sales (prior to inter-segment eliminations) and generated operating losses of HRK 616 million.

Inter-Segment Eliminations and Transfer Pricing Arrangements

Inter-segment eliminations include the sale by the Exploration & Production business segment of locally produced crude oil to the Refining & Wholesale business segment and the sale of refined product to the Retail business segment. Internal sales from the Exploration & Production business segment to the Refining & Wholesale business segment are made under transfer pricing arrangements which are based on quoted international market prices of Brent with an adjustment to take into account the quality factor of domestic oil compared to the market benchmark. With effect from 1 May 2006, the Management Board of INA decided, in response to high crude oil prices and price regulation, to apply a discount to the market price depending on the type of crude oil and that the transportation costs, insurance and quality control costs would be borne by the Exploration & Production business segment. The Refining & Wholesale business segment's sale of refined products to the Retail business segment are made under transfer pricing arrangements which are based upon Platts prices (i.e., average market derivative prices) converted to Kuna using the average Kuna/U.S. dollar exchange rates, with additions for certain specified cost elements, customs and excise expenses, warehousing and handling costs. See "— Factors affecting INA Group's Business and Results of Operations — Retail fuel products and natural gas pricing regulations" below. A margin, which is shared between the Refining & Wholesale and Retail business segments, is also incorporated into the transfer pricing arrangements.

Inter-segment eliminations also include the sale by certain subsidiaries of services to the other business segments. In particular, Sinaco provides safety and security services to other business segments and STSI provides maintenance services mainly to the Exploration & Production and Refining & Wholesale business segments, including in connection with the refinery modernization program.

Inter-segment sales in the Exploration & Production business segment accounted for HRK 1,695 million (or 31.3 per cent.), HRK 1,836 million (or 32.2 per cent.) and HRK 2,367 million (or 35.8 per cent.) of total sales in the years ended 31 December 2003, 2004 and 2005, respectively. In the six months ended 30 June 2005 and 2006, inter-segment sales in the Exploration & Production business segment accounted for HRK 953 million (or 32.4 per cent.) and HRK 1,243 million (or 33.7 per cent.) of total sales, respectively. Inter-segment sales in the Refining & Wholesale business segment accounted for HRK 3,654 million (or 35.6 per cent.), HRK 3,298 million (or 25.3 per cent.) and HRK 3,926 million (or 25.0 per cent.) of total sales in the years ended 31 December 2003, 2004 and 2005, respectively. In the six months ended 30 June 2005 and 2006, inter-segment sales in the Refining & Wholesale business segment accounted for HRK 1,626 million or (24.8 per cent.) and HRK 2,087 million (or 26.6 per cent.) of total sales. Inter-segment sales in the Retail business segment accounted for HRK 60 million (or 1.6 per cent.), HRK 18 million (or 0.4 per cent.) and HRK 54 million (or 1.1 per cent.) of total sales in the years ended 31 December 2003, 2004 and 2005, respectively. In the same period, inter-segment sales in the Corporate and Other business segment accounted for HRK 663 million (or 92.1 per cent.), HRK 717 million (or 89.5 per cent.) and HRK 881 million (or 90.5 per cent.) respectively. In the six months ended 30 June 2005 and 2006, inter-segment sales in the Retail and Corporate and Other business segments accounted for, in aggregate, HRK 3 million (or 0.14 per cent.) and HRK 28 million (or 1.1 per cent.), HRK 382 million (or 86.0 per cent.) and HRK 381 million (or 86.8 per cent.) of total sales, respectively.

Recent and Anticipated Transactions

There are three agreements relating to transactions that are not reflected in INA Group's results to date, but which are expected to affect INA Group's financial and operating results in the future:

(a) In September 2006, a MOL/INA consortium (50 per cent. INA and 50 per cent. MOL) signed a Recapitalization Agreement with the Government of the Federation of Bosnia and Herzegovina and Energopetrol for the acquisition of a 67 per cent. (33.5 per cent. each) interest in Energopetrol for a total amount of KM 10.2 million (approximately €5.1 million) payable equally by both parties.

Energopetrol engages in the marketing of refined products in the Federation part of Bosnia and Herzegovina, where it operates 65 petrol stations. The consortium shall invest KM 150 million in the three-year period following completion: KM 20 million (approximately €10 million) in the first year; KM 35 million (approximately €17.5 million) in the second year and KM 95 million (approximately €47.5 million) in the third year. The consortium has also agreed to cover all liabilities of Energopetrol in the amount of KM 60.2 million (approximately €30.1 million). This transaction has not yet closed, as the parties are awaiting the approval of the competition authorities in Bosnia and Herzegovina.

(b) INA is currently negotiating a settlement agreement with the Government of Republika Srpska relating to the restitution of property in Bosnia and Herzegovina regarding Krajina Petrol. The likely outcome will involve INA taking a controlling interest in a company operating the 14 petrol stations formerly owned by INA in the Republika Srpska part of Bosnia and Herzegovina.

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

Recent Trends and Developments

In the period since 30 June 2006, INA Group's overall trading performance has been below expectations for the reasons set forth below, as a result of which INA Group expects that its profit from operations will be significantly lower in 2006 than it was in 2005. INA expects that profit from operations attributable to the Exploration & Production business segment and the Retail business segment in 2006 will be broadly similar to the levels of profitability achieved in 2005. However, INA expects that the Refining & Wholesale business segment may realize a loss from operations in 2006, and for the Corporate and Other business segment's loss from operations to be higher in 2006 than was the case in 2005. It is expected that these factors, together with certain others, will have a significant and materially adverse impact on INA Group's profit from operations in 2006.

Exploration & Production

Daily production levels of crude oil, natural gas and condensate in MMboe have increased slightly since 30 June 2006.

Crude oil

Market prices for crude oil have remained volatile, and have been declining considerably since a peak in late July/early August 2006. The per barrel Brent average benchmark price for the two months ended 31 August 2006 was U.S.$73.38/bbl, while it fell to an average price of U.S.$61.70/bbl for the month of September 2006, and an average price of U.S.$57.8/bbl for the month of October 2006. Despite the recent downward trend, the per barrel Brent average benchmark price for the first ten months of 2006 was approximately U.S.$66.60, which was higher than the overall 2005 average of U.S.$54.52/bbl (source: Platt's European market prices).

Natural gas

The price of imported Russian natural gas is adjusted quarterly and linked to the average prices over the preceding nine months of high and low content sulphur fuel oil and gas oil, which have generally reflected the trend in, or increased by a greater percentage than, the Brent average benchmark price. As a result, the effect of the recent decline in crude oil prices has not yet been reflected in the prices paid by INA Group for imported Russian natural gas. Rather, INA Group's cost of imported Russian natural gas has increased since 30 June 2006, which reflects the upward trend in crude oil prices during the preceding nine month period. INA Group has not been able to pass through this increase in natural gas prices to its customers due to contracts which are subject to State Influence. This has adversely affected INA Group's results of operations in the third quarter of 2006, and is expected to have an even more significant impact on its results of operations in the fourth quarter as the Russian natural gas price for this period will indirectly reflect the highest ever historical crude oil prices. Consequently, INA Group expects that total profit from operations of its Exploration & Production business segment in 2006 will be broadly similar to levels achieved in 2005, notwithstanding the higher crude oil prices, and will have a significant negative impact on the overall profit from operations for INA Group for the full year 2006. See "— Factors affecting INA Group's Business and Results of Operations — Crude oil, natural gas and petroleum products trading prices".

Refining & Wholesale

The Croatian pricing formula applicable to the sale of certain fuel products, principally comprising gasoline and diesel fuel, limits INA Group's ability to fully and immediately reflect changes in crude oil prices and the costs relating to purchasing or producing refined products. See " — Factors affecting INA Group's Business and Results of Operations — Retail fuel products and natural gas pricing regulations". With effect from 7 July 2006, the Ministry of Economy issued a new Rulebook on the Pricing of Derivatives which has resulted in a modification to the pricing formula, which now:

- has a reduced custom tariff component of 2.1 per cent. (previously 4.2 per cent.) which INA Group understands is to be reduced to zero in 2007;
- no longer includes a fee component for mandatory reserve holding charges of HRK 79.6/t that INA (and all other market participants) were previously able to factor into their fuel product prices;
- has introduced a HRK 120/t fee to fund the Agency for Mandatory Reserves of Oil and Oil Derivatives and to cover the costs of mandatory reserves detailed below; and
- has reduced the margin for blue diesel from HRK 0.60/liter to HRK 0.30/liter.

These regulatory changes have imposed new, lower limits on the maximum prices INA Group can charge for the affected products. Consequently, INA Group expects these changes to contribute to the expected loss from operations in the Refining & Wholesale business segment in 2006, as compared to the profit from operations realized in 2005, which will negatively impact the overall profit of INA Group for the full year. The adverse effect on INA Group's profit from operations of the prices that it could charge under the new pricing formula, when compared to the prices it could have charged under the previous pricing formula, is estimated to amount to up to approximately HRK 200 million for the full year 2006, assuming that current prices and volumes remain constant.

Notwithstanding the pricing formula, as a result of State Influence and social pressure, since May 2006, INA Group has been unable to charge the maximum prices allowable under the pricing formula. This has also adversely affected the prices that could be charged for most of INA Group's product slate. Consequently, the adverse effect on INA Group's profit from operations, assuming it would have been able to maximize the prices that it could have charged under the relevant pricing formula that prevailed at the time, is estimated to amount to up to approximately HRK 300 million for the full year 2006, assuming that current prices and volumes remain constant.

There are a variety of reasons why INA may not, in reality, have chosen to charge the maximum prices permitted under the pricing formula and as affected by State Influence and social pressure. These reasons include pricing from competitors and market share considerations. For these and other reasons, INA Group has, in the past, frequently sold its refined products at price levels below the maximum prices permitted and, as such, the estimates referred to above reflect the estimated maximum operating profit foregone as calculated on the basis of the assumptions stated above. In practice, the actual foregone operating profit could have been lower.

The maximum prices under the new formula also now reflect a fee that is payable by INA Group and all other market participants of HRK 120/t to fund the Agency for Mandatory Reserves of Oil and Oil Derivatives, and the costs of mandatory reserves of oil and oil derivatives. If the maximum price under the new pricing formula could be charged, this fee component could be passed on in full to INA Group's customers. However, if INA Group is unable to charge the maximum price, its profit from operations is expected to be negatively impacted. In addition, INA Group and other market participants are still required to retain mandatory reserves, the costs of which can no longer be recovered under the revised formula.

Furthermore, since July 2006, the macroeconomic environment affecting companies operating in the oil and gas sector has adversely affected INA Group's refining margins. These macroeconomic factors included, among others, rising international crude oil and refined product inventories, a mild hurricane season and decreasing political tensions in certain oil producing regions.

With effect from 1 November 2006, the name of the Refining & Wholesale business segment will be changed to "Refining & Marketing". This change reflects alterations to reporting lines and certain other organizational changes within the business segment, which are aimed at improving the business segment's efficiency and its compatibility with the new SAP-based integrated IT system that INA is implementing.

Retail

Since 1 July 2006, sales volumes have exceeded sales in the same period in 2005 due to increased demand during the tourist season. However, profit from operations in 2006 is nevertheless expected to be broadly similar to that achieved in 2005, primarily because of the reduction in the fixed margin paid to the Retail business segment by the Refining & Wholesale business segment as discussed more fully below.

Corporate Functions

Since 1 July 2006, Corporate Functions has continued to incur significant cost increases, principally reflecting the cost of preparation of INA for its proposed listing on the Zagreb and London stock exchanges, consultancy services, and higher insurance premiums. As a result, the loss from operations of the Corporate and Other business segment in 2006 will be greater than it was in 2005, which will adversely affect the overall profit of INA Group for the full year.

Capital Expenditure

Capital expenditure in the second half of 2006 is expected to be higher than the first half of the year due to expenditure associated with refinery modernization and the construction and development of petrol stations. See "Risk Factors".

Factors Affecting INA Group's Business and Results of Operations

Management believes that the following factors have had, and will likely continue to have, a material effect on INA Group's results of operations and financial condition.

Crude oil, natural gas and petroleum products trading prices

INA Group's results of operations are influenced by the demand for, and prices of, crude oil, natural gas and petroleum products on the international markets, which are dependent on a variety of external factors. These include global and regional economic and political developments, particularly in the Middle East; the ability of international cartels and oil-producing nations to influence production levels and prices; actions taken by governments; the level of consumer product demand; the price and availability of alternative products; and weather conditions.

Per barrel Brent average benchmark prices were U.S.$65.66 in the first half of 2006, U.S.$54.52 in 2005, U.S.$38.26 in 2004 and U.S.$28.83 in 2003 (source: Platt's European Marketscan).

Higher crude oil prices have historically had a positive effect on INA Group's results of operations, as its Exploration & Production business segment benefits from the resulting increases in prices realized from production, and the Refining & Wholesale business segment and, indirectly, the Retail business segments have generally been able to pass the increase in crude oil prices to end customers. However, if crude oil prices reach the historically high levels experienced in much of 2006, INA Group is not able to maintain its refining and/or retail margins as it is not able, due to Government regulation or otherwise, to pass such increases on to its customers. Conversely, lower crude oil prices have a negative effect on the results of operations of the Exploration & Production business segment by reducing the economic recoverability of discovered reserves and the prices realized from production. Although an increase or decrease in the price of crude oil generally results in a corresponding increase or decrease in the price of the majority of INA Group's refined petroleum products, changes in the prices of refined petroleum products generally lag behind upward and downward changes in crude oil prices. As a result, a rapid and significant increase or decrease in the market price for crude oil could adversely affect INA Group's refining and/or retail margins.

Volatility of crude oil and refined product prices also affects the profitability of INA Group's natural gas sales because it is common industry practice to index natural gas sourcing to crude oil or refined product benchmarks. Higher natural gas prices may have a negative effect on INA Group's results of operations, as it has been restricted in its ability to pass on natural gas price increases to its customers. This effect, due to the way in which the preceding nine month pricing formula in the gas purchase contract with Gazexport works, does not coincide in time with high or low market prices. 2005, INA Group imported approximately 41 per cent. of Croatia's natural gas demand from Russia, pursuant to a supply contract with Gazexport, under which INA pays market prices for this natural gas. This figure decreased to 38 per cent. in the six months ended 30 June 2006. The price of imported Russian natural gas is adjusted quarterly and linked to the average price over the preceding nine months of high and low sulphur content, fuel oil and gas oil. Accordingly, the effect of the higher average prices which peaked in July/August 2006 will impact INA's cost of natural gas under the contract in the second half of 2006 and in the first quarter of 2007.

Retail fuel products and natural gas pricing regulations

Croatian laws and regulations set out a pricing formula applicable to the sale of certain oil derivatives (principally comprising gasoline and diesel fuel) in Croatia. The market conditions taken into consideration for permitted price adjustments include average market derivative (Platt's) prices and, therefore, crude oil prices are only indirectly considered in the formula. This formula sets the maximum selling price and, indirectly, the margin that can be earned on regulated oil derivatives in the Croatian market. In addition, as fuel retailers and wholesalers are only entitled to reset prices upwards every 14 days provided that the application of the price formula results in a price which is at least 2 per cent. more than what it was in the previous 14-day period, it does not protect them from the adverse impact of any changes in crude oil prices within such 14-day periods. While these price increases are optional, price decreases are required in the event that average Platt's product prices fall by more than 2 per cent. in a 14-day period.

In the six months ended 30 June 2006, the Government attempted to minimize the adverse impact of high crude oil prices on the Croatian economy by using its State Influence to restrict price increases on INA's Eurosuper 95, one of the Retail business segment's key products. These influences were no longer relevant by early September 2006, as falling crude oil prices meant the maximum selling price according to the legislated formula would in any event be less than the levels the Government was concerned about. Indirectly, these influences also affected the prices that INA could charge on other petrol and diesel fuel to levels below what would otherwise have been permitted pursuant to the terms of the pricing formula.

Furthermore, the Croatian Parliament introduced legislation pursuant to which the Government can, in the event of domestic market disturbances, set the maximum price for retail customers for certain fuel products in the Croatian market, despite the formula. Although this power was formerly open-ended, since 1 June 2006 any such price freeze is no longer permitted to exceed 90 days, although there is no limit on the number of times it can be reimposed. However, the Government has not used that authority.

INA Group sells natural gas to two types of customers: tariff customers and eligible customers. The prices at which INA Group sells natural gas to tariff customers is set on the basis of a tariff system composed of a methodology for determination of tariff rates (determined by Hrvatska Energetska Regulatorna Agencija ("HERA")) and the level of tariff rates (determined by the Government. Tariff customers comprise natural gas distribution companies and industrial customers who buy agreed quantities of natural gas. Eligible customers, such as the national electricity company ("HEP"), the Croatian fertilizer plant Petrokemija Kutina, the Croatian pharmaceutical company Pliva and the Steelworks plant in Sisak, are large consumers of natural gas and therefore by Croatian law have the right to negotiate outside the tariff structure. Until early 2005, INA was required to submit an application every three months to HERA, which could agree to a price change if it agreed that the calculation was carried out according to an agreed formula and the resulting price was at least 2 per cent. more or less than the prevailing price in the immediately preceding three month period. This system was suspended in early 2005, and HERA is expected to publish new proposals in 2007. In the interim, the tariff rate has been controlled directly by the Government.

Since 1 January 2003, the tariff rate has changed only once, in May 2004, from HRK 28.3/mcf to HRK 30.3/mcf. As a result, while the cost of imported Russian natural gas has risen, from an annual average of HRK 31.4/mcf in 2003 to HRK 50.1/mcf in the first half of 2006, the price to tariff customers has remained unchanged. In 2005, INA sold natural gas at a price which was significantly less than average international natural gas prices. In addition, eligible customers have enjoyed the application of favorable tariffs throughout the period under review. Consequently, INA Group has realized large losses on the sale of imported Russian natural gas, which have had a negative effect on its results. In 2005, 41 per cent. of INA Group's total natural gas sold by volume came from imports.

INA's contracts with Pliva, HEP and Petrokemija were renegotiated in the beginning of 2006 and, although their pricing terms have improved to some degree they are still significantly less than the price paid for Russian natural gas. The contract with Valjaonica cijevi (the company that owns the Sisak steelworks plant) expires on 31 December 2006.

Refining margins

INA Group's consolidated results of operations and, in particular, the profit from operations of the Refining & Wholesale business segment, are linked to gross refining margins, which are the difference between the prices of bulk refined oil derivatives INA Group sells and the price of crude oil and other feedstocks INA Group purchases and processes. In general, refining margins are principally driven by global demand for refined products and by prices of crude oil and refined products.

The strength of INA Group's refining margins depends on INA Group's refineries ability to (i) maximize their use of lower cost feedstocks and (ii) produce greater yields of higher value products such as gasoline, diesel and jet fuel from a given feedstock slate with lower yields of lower value-added products such as heavy fuel oils. In 2005, approximately 67 per cent. of the crude oil processed by INA Group's refineries was Russian Export Blend ("REB") crude oil. Historically, the price of REB has traded below Brent, because REB is heavier and more sour and because the supply of REB has been increasing while that of Brent and other lighter crude oils has been decreasing. The economic benefit presented by this price differential, particularly for refineries lacking desulphurization and upgrading units, such as those presently operated by INA Group, is partially offset by lower yields of higher value products.

Another important factor is the effect of the overall trends affecting demand for refined products. Increased demand for middle distillates (particularly diesel) has resulted from strong growth in diesel car sales and increased demand for cleaner, more fuel-efficient vehicles in the Core Region, as experienced in the rest of Europe. As a result, total Croatian diesel consumption for road transportation has increased. In line with market trends, INA Group's annual gasoline and fuel oil sales have declined, while its diesel sales have increased over the three year period ended 31 December 2005. This trend is expected to continue.

Refinery performance and modernization

Legislation and regulations throughout the EU have been implemented in recent years specifying the maximum sulphur levels that can be present in gasoline and diesel. As a result, the demand for such Eurograde fuels has increased while demand for fuels not meeting such specifications has been decreasing. The lack of a significant price differential between Eurograde and non-Eurograde fuels has further increased the demand for Eurograde products. Additionally, European demand for fuel oil is in structural decline due to increasing preferences for cleaner energy such as natural gas.

Due to the lack of desulphurization and upgrading capacity, INA Group's refineries are currently unable to profitably utilize their full production capacities and are able to produce approximately one quarter of their gasoline and diesel to Eurograde specifications, and approximately 18 per cent. of total production is low margin fuel oil. INA Group's refineries have experienced increased levels of refinery stoppages. The average age of INA Group's major refinery units is 26 years, and utilization levels are relatively low compared to industry benchmarks.

In order to address these issues, INA Group is pursuing a modernization program which is presently estimated to involve aggregate expenditure of approximately U.S.$1.1 billion from 2006 to 2011. The modernization program includes the construction of units that are expected to be operational in 2008 and 2009, which will enable production of all of INA Group's Croatian diesel and gasoline demand in accordance with Eurograde requirements and increase overall capacity utilization. Additionally, unit upgrades are planned which will largely eliminate fuel oil production by 2011 and replace such production with Eurograde diesel and further increase operating utilization. The modernization program is aimed at achieving improved overall efficiency and profitability and compliance with current EU environmental emission standards.

The modernization program is being financed partially through indebtedness, in particular the unused portion of the existing loan facility, arranged by a group of mandated lead arrangers with Mizuho as agent. See "— Long-Term Loans" below.

In order to secure sufficient long-term sources of funding for the modernization program, and to benefit from the currently favorable conditions on the syndicated loan market, INA envisages making use of additional external financing in the form of a syndicated loan facility. In this regard, it is currently discussing a potential syndicated loan facility of approximately U.S.$600 million with various banks which may form part of any syndicate. INA hopes to enter into a facility agreement in the first quarter of 2007.

Production volumes and reserve replacement

INA Group's results of operations depend on its crude oil and natural gas production volumes and its ability to replace its depleting reserves, particularly at its mature onshore Croatian fields. Crude oil production at its non-Croatian fields currently represents a small but growing proportion of INA Group's crude oil production (approximately 17 per cent. of total crude oil production in 2005). Historically, INA Group has used most of its cash flow for exploration and production activities. The exploration, development or acquisition of reserves is highly capital intensive. A shortage of sufficient operating cash flow from its operations or external capital would constrain INA Group's exploration and production activities.

INA Group's proved and proved plus probable reserve replacement rates have averaged 134 per cent. and 342 per cent., respectively, over the three year period ended 31 December 2005, due largely to discoveries in Syria and offshore Croatia. INA Group is also currently conducting exploratory drilling and seismic surveys in several regions, including in Croatia. INA Group is also implementing an EOR scheme on two of its Croatian fields. Nevertheless, as is generally the case in the industry, there can be no assurance that INA Group will continue to be able to replace its current reserves on a commercially feasible basis, particularly in view of the fact that it is likely to have to depend on international reserves to a significantly greater extent in the future.

Exploitation fees and import tariffs

INA is required to pay exploitation fees for the exploitation of oil and natural gas to the municipalities in which its oil and natural gas reserves are situated in Croatia. These royalties are currently 2.6 per cent. of the revenue (before taxes and excise) realized from the sale of oil and natural gas produced at the relevant fields. However, certain municipalities that fall within the special state care regime (for example, areas which sustained war damage or are underdeveloped for other reasons) are entitled to a higher royalty of 5 per cent. The Croatian mining royalty is relatively low compared to certain other European countries. Management expects that the royalty may be increased following the proposed EU accession, as has been the case with other Eastern European countries following accession.

The maximum sales prices that may be charged for petrol and diesel fuel are regulated by the Ministry of Economy, Labor and Entrepreneurship via a pricing formula, applied by all participants in the domestic market, which provides for, inter alia, full recovery of import tariffs. As INA Group is not subject to import tariff costs on its domestic production, it has had a competitive advantage due to its being able to set lower pump prices relative to its competitors while still achieving a comparable margin. The decline in import tariffs in recent years from 7.8 per cent. in 2003, 6.1 per cent. in 2004, 4.2 per cent. in 2005 and 2.1 per cent. in 2006, has eroded INA Group's competitive advantage. This has been further impacted by INA Group's having to import certain EU compliant products to meet market demand. INA Group has responded to the lowering of prices in the wholesale market, which is governed by the same pricing formula, by offering wholesale customers an increasing level of discounts as part of its annual tendering process. This has had a further adverse effect on its refining and wholesale margins. INA Group believes that the import tariff will be entirely eliminated in 2007.

Operating expenses and ongoing rationalization programs

INA Group's most significant operating expenses are as follows:

(a) the cost of raw materials and consumables (which comprise purchases of materials for use in the production process and production costs, for example crude oil purchases for the Refining & Wholesale business segment, and the cost of extraction of oil for the Exploration & Production business segment);

(b) logistical costs (which comprise maintenance costs, for example of onshore wells and refineries; transportation costs, for example the cost of transporting refined product from the refineries to storage depots and retail sites by road, rail, ship and barge and the costs of sub-contractors);

(c) service costs (which comprise insurance premiums, site security, environmental protection, mining royalties for the Exploration & Production business segment, vocational training of staff and business entertainment);

(d) staff costs (which comprise employee wages and other staff-related costs); and

(e) the cost of goods for resale (which represents goods acquired to be resold, with no further processing, such as imported Russian natural gas in the Exploration & Production business segment and Euro grade refined product in the Refining & Wholesale business segment).

While INA Group staff levels have remained relatively flat since 2003, salary costs increased by 9 per cent. in both 2004 and 2005 in line with the salary increase contracted for in a collective bargaining agreement settled between INA and three trade unions. Given that high staffing costs are largely a result of a large employee base (INA Group employed 16,114 people as at 30 June 2006), INA and its subsidiaries, STSI, Crosco and Proplin, have adopted a plan to encourage early retirement of their employees, and Management Board approval of the relevant subsidiary is now required for any new recruitment within INA Group. Sinaco and Maziva-Zagreb are also preparing to implement these measures.

In December 2005, INA Group approved the OptINA program, which is designed to implement certain recommendations made by McKinsey & Co. consultants. Projected savings are to be achieved through a variety of projects which focus on functional related cost savings across INA Group's business segments, with particular emphasis on procurement and maintenance, including reduction of own hydrocarbon consumption and losses through, for example, improved heater efficiencies and installation of waste heat boilers; a procurement optimization project, the aim of which is to optimize purchasing of energy, car leasing, office supplies, travel and telecommunication; and a maintenance rationalization project, the aim of which is to reduce sub-contractor spending across all functions (in particular in the Exploration & Production and Refining & Wholesale business segments), improve work scheduling and improve monthly budgeting monitoring. While at present the OptINA program is on schedule and INA Group expects it to result in significant savings, the entire benefit of the OptINA program will only become apparent after its full implementation in 2008.

In 2005 and 2006, INA Group, with the assistance of Roland Berger Strategy Consultants, reviewed its storage and logistics operations and identified a number of improvement opportunities. These included rationalization of the terminal and warehouse network, outsourcing of road transport, terminal automation, organization restructuring and introduction of performance measures. INA Group is targeting operational improvements from such initiatives. Within the Refining & Wholesale business segment, other projects include a strategic review of the lubricants plants. Roland Berger Consultants were also employed to consider how to improve the performance of the retail network, resulting in INA Group's approval of plans to implement a number of initiatives. See "Business — Strategy — Expand and modernize retail network" and "Business — Retail — Future investment plan — Restructuring and upgrading the existing network" for further discussion of the new retail strategy.

Trends in the U.S. dollar exchange rate

INA Group purchases most of the crude oil supplies required by its refineries. INA Group's cost of purchasing crude oil, natural gas and petroleum products is affected by movements in the Kuna/U.S. dollar exchange rate. The average exchange rate of the Kuna to the U.S. dollar in the years ended 31 December 2003, 2004 and 2005 respectively was HRK 6.70, HRK 6.04 and HRK 5.95 per 1 U.S. dollar. The effective exchange rate of the Kuna to the U.S. dollar as at 31 December 2003, 2004 and 2005 respectively was HRK 6.12, HRK 5.64 and HRK 6.23 per 1 U.S. dollar. This risk is hedged to an extent by the export sales contracted in U.S. dollars. In addition, the pricing formula for sale prices of the majority of derivatives (primarily gasoline and diesel fuel) takes into account the foreign exchange rate movement of the Kuna against the U.S. dollar. See "Regulation".

As the crude oil import price and the domestic/export sales prices both include a Kuna/U.S. dollar component, to a certain degree a "natural hedge" is created against exchange rate movements. This provides some protection against foreign exchange rate fluctuations. The benefits of this natural hedge could be limited by future changes in the domestic pricing formula for gasoline and diesel fuel. In particular, the Government, in its regulatory role, could alter or suspend the pricing formula, thereby no longer permitting the gasoline and diesel fuel sales prices to fully reflect the exchange rate impact. In addition, the Government, as a major shareholder of INA, may continue to influence INA Group in the setting of its domestic prices with a view to protecting Croatian consumers.

As yet, INA Group believes there are no financial instruments available at an acceptable price that may provide a hedge against the principal foreign exchange risk INA Group faces. See "Risk Factors".

Foreign exchange rate exposure is further mitigated by INA Group's policy regarding its indebtedness, which focuses on borrowing in foreign currencies (mostly in U.S. dollars) and the fact that most of INA Group's investments are either contracted directly in U.S. dollars (for example, international crude oil and gas exploration projects) or the purchase price of investments is tied to the value of the U.S. dollar (for example, assets acquired for the refinery modernization). U.S. dollar debt interest payments and asset purchases denominated in U.S dollars provides a natural hedge against cash inflows of U.S. dollars from export sales.

INA Group's results of operations have fluctuated significantly as a result of changes in the relative value of the Kuna to the U.S. dollar. INA Group expects that these fluctuations will continue to impact its profits in the future.

Product stocks

INA Group, like any other marketer of refined products in Croatia, is required by law to maintain specified levels of oil and oil derivative products to ensure energy security and market supply. See "Regulation — Croatia Industry regulation — Regulation of the oil sector — Oil and refined products reserves". In 2003 and 2004, INA Group was required to reserve 10 per cent. and 15 per cent. respectively and, since 2005, 20 per cent. of the prior year's net imported quantity of oil and oil derivative products. The cost of maintaining mandatory reserves could previously be recovered through wholesale and retail sales prices, as the storage, replenishment and purchase cost was reflected in the pricing formula applied to the sale of certain refined products. However, in July 2006, this ability to recover costs was abolished, and the cost of carrying these stocks is now borne by INA Group and all other market participants. Furthermore, according to the Law on Oil and Oil Derivatives Market dated June 2006, the

Croatian Agency for Mandatory Reserves was established. The Law requires INA and all other market participants to pay a fee of HRK 120/t to fund the Agency for Mandatory Reserves of Oil and Oil Derivatives and to cover the costs of mandatory reserves. Although the quantity of mandatory reserves required to be kept under Croatian law is to be reduced gradually every year, and their maintenance is expected to be taken over in full by the Croatian Agency for Mandatory Reserves of Oil and Oil Derivatives from 1 August, 2011, all market participants who, prior to the entry into force of the Law, were required to keep the mandatory reserves, continue to bear this obligation.

Market share and car penetration

Car penetration is growing in Croatia and the rest of INA Group's Core Region, a trend which is expected to continue as Croatia approaches EU membership, increasing the demand for fuel.

Critical Accounting Policies

A summary of INA Group's significant accounting policies is included in the notes to the Consolidated Financial Statements. Inherent in the application of many of these accounting policies is the need for management to make estimates and judgments as required by IFRS that affect the reported amounts of revenues, expenses, assets and liabilities. The matters described below are considered to be the most critical in understanding the estimates, judgments and determinations that are involved in the preparation of the Consolidated Financial Statements.

Oil and natural gas accounting

(i) 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 natural gas assets pending determination of the commercial viability of the relevant oil and natural gas properties.

In 2005, INA Group changed its accounting policy applicable to license and data provision costs and costs associated with geological and geophysical activities, as a result of which 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 natural gas assets pending the determination of the commercial viability of the relevant oil and natural gas properties.

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

(ii) Fields under development

Exploration costs of oil and gas field development are capitalized as intangible or tangible oil and natural gas assets. Such costs also include, prospectively, applicable exploration costs and development drilling costs.

(iii) Depreciation

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

(iv) Commercial reserves

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

Impairment of assets

At each balance sheet date, INA 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 to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, INA Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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 recognized immediately in the profit and loss statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

A reversal of an impairment loss is recognized immediately in the profit and loss statement, 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 natural 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.

Provisions for decommissioning and other obligations

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

Where the provision relates to the decommissioning and removal of assets, such as an oil and natural 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.

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

Inventories

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

(a) crude oil is valued at the lower of production or purchase cost (as applicable) and net realizable value based on year-end Platt's prices;

(b) finished products are valued at the lower of cost or 95 per cent. of estimated average sales price, which approximates the net recoverable amount;

(c) semi-finished products and work in progress are valued at the lower of estimated cost of production and net realizable value based on year-end Platt's prices reduced by a commensurate percentage, based on the extent of completion and processing, of estimated average refining and production margins;

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

(e) domestic natural gas held in underground storage is valued at the lower of weighted average sales price and cost; and

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

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

During 2005, INA changed its accounting policy applicable to license and data provision costs and costs associated with geological and geophysical activities, such that the costs are now charged to the period in which they are incurred. This change in accounting policy is considered preferable because it is consistent with the US GAAP approach, which is widely used by other international oil and gas companies. Until 31 December 2004, all such costs were initially capitalized as intangible oil and natural gas assets pending the determination of the commercial viability of the relevant oil and natural gas properties.

The change in accounting policy has been retroactively applied, and the affected prior-year balances as at 31 December 2003 and 2004 were restated. The effects of the change to the applicable years are presented in the financial statements.

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

Until 1 January 1993, certain oil exploration costs were not capitalized, but instead were expensed in the year incurred. As a result, the costs associated with exploration of oil wells were not properly capitalized. In 2005, INA retroactively capitalized the oil and natural gas exploration costs related to those oil wells. Therefore, the 2003 and 2004 financial statements were restated accordingly.

The existing assets on the oil and natural gas fields were valued using estimations and indexing as part of the valuation of the non-recorded oil and natural gas properties.

Based on the revaluation, 1,917 oil wells have been included in the Financial Statements, 1,905 of which are classified as property and 12 as assets under construction.

Results of Operations

The discussion of each of consolidated sales, operating expenses, net of income from own consumption of products and services and other operating income and profit from operations by business segment below is gross of inter-company eliminations. Income from own consumption of products and services refers to income arising from the capitalization of internal resources, while other operating income refers to the release of unutilized provisions and other sundry amounts.

INA Group Summary Segmental Results of Operations

	Year ended 31 December			Six months ended 30 June	
	2003 (Restated)	2004 (Restated)	2005	2005 (Unaudited)	2006 (Unaudited)
	(in HRK millions)				
Sales					
Exploration & Production	5,416	5,710	6,607	2,945	3,691
Refining & Wholesale	11,503	13,018	15,724	6,565	7,833
Retail	3,778	4,328	4,994	2,110	2,558
Corporate and Other	720	801	973	444	439
Inter-segment eliminations	(6,072)	(5,869)	(7,228)	(2,964)	(3,739)
Total sales	15,345	17,988	21,070	9,100	10,782
Operating Expenses					
Exploration & Production	(4,727)	(4,626)	(5,045)	(2,286)	(2,723)
Refining & Wholesale	(11,531)	(12,185)	(15,325)	(6,531)	(7,805)
Retail	(3,644)	(4,247)	(4,929)	(2,153)	(2,566)
Corporate and Other	(1,320)	(1,376)	(1,589)	(594)	(759)
Inter-segment eliminations	6,072	5,869	7,228	2,964	3,739
Total operating expenses, net of income from own consumption of products and services and other operating income	(15,150)	(16,565)	(19,660)	(8,600)	(10,114)
Profit from operations					
Exploration & Production	689	1,084	1,562	659	968
Refining & Wholesale	(28)	833	399	34	28
Retail	134	81	65	(43)	(8)
Corporate and Other	(600)	(575)	(616)	(150)	(320)

	Year ended 31 December			Six months ended 30 June	
	2003	2004	2005	2005	2006
	(Restated)	(Restated)		(Unaudited)	(Unaudited)
	(in HRK millions)				
Total profit from operations	195	1,423	1,410	500	668
Share in the profit of associate companies	15	23	73	—	—
Finance revenue	783	354	181	175	346
Finance costs	(455)	(367)	(518)	(262)	(237)
Net profit/(loss) from financial activities	328	(13)	(337)	(87)	109
Profit before taxation	538	1,433	1,146	413	777
Current taxation	(4)	(313)	(236)	(114)	(144)
Deferred taxation	60	10	(25)	40	(3)
Profit for the period	594	1,130	885	339	630

In the table and text, any figures which are not extracted from the Audited Financial Statements or the Unaudited Condensed Financial Statements are extracted from Management accounts, other INA Group financial or operational data, or analysis specially prepared for this prospectus. Those figures that are estimates and approximations are subject to possible change, including in some cases as part of an audit process; nevertheless, INA Group does not expect the changes to be material.

Certain figures discussed below relating to 2003 and 2004 are restated, as described in "— Critical Accounting Policies — Change in accounting policy: accounting for geological and geophysical (G&G) costs" and "— Correction of prior period error: Capitalization of unrecorded upstream well costs".

Business segment sales include sales made between business segments and the costs associated with such sales are therefore included within operating expenses in the business segment making the purchase. Inter-segment transactions are eliminated to arrive at INA Group sales and INA Group operating expenses. The line item is discussed only once below under inter-segment sales (eliminations).

Six Months Ended 30 June 2006 Compared to Six Months Ended 30 June 2005

Consolidated sales

INA Group's consolidated sales increased by 18.5 per cent. from HRK 9,100 million in the six months ended 30 June 2005 to HRK 10,782 million in the six months ended 30 June 2006. This primarily reflected an increase in rising crude oil and natural gas prices and average refined product prices.

Exploration & Production

Sales in the Exploration & Production business segment increased from HRK 2,945 million in the six months ended 30 June 2005 to HRK 3,691 million in the six months ended 30 June 2006, an increase of 25.3 per cent. The increase primarily reflected an average increase in the crude oil sales price of 31 per cent. and a 9 per cent. increase in the weighted average gas sales price. Prices for natural gas charged to eligible customers increased following the renegotiation of certain of their contracts but remained significantly below international prices.

Domestic onshore and offshore gas production increased from 32.2 Bcf in the six months ended 30 June 2005 to 34.1 Bcf in the six months ended 30 June 2006, an increase of 5.7 per cent., primarily as the result of new production at two offshore gas fields. Revenues from natural gas sales (including payments from customers for transportation costs) increased from HRK 1,431 million in the six months ended 30 June 2005 to HRK 1,533 million in the six months ended 30 June 2006. Nevertheless, natural gas losses on imported Russian gas increased. This was primarily due to a widening differential between imported natural gas prices (which increased by approximately 45 per cent. in the six months ended 30 June 2006) and the lower weighted average price of natural gas sold to INA Group's eligible and tariff customers which increased at a lower rate. INA Group's weighted average cost of natural gas sold was also negatively impacted by a higher proportion of natural gas having been sold to eligible customers who pay less than tariff customers. These factors were partially offset by a slight decrease in the volume of natural gas imported from Russia and a slight increase in the volume of natural gas produced domestically produced domestically where the cost of production is lower than the prices paid by eligible and tariff customers.

The volume of crude oil sold increased from 2,650 Mbbl in the six months ended 30 June 2005 to 2,736 Mbbl in the six months ended 30 June 2006, an increase of 3.2 per cent. This primarily reflected an increase in Syrian crude oil production coming onstream in late 2005 and achieving production volumes of 117 Mbbl in the six months ended 30 June 2006. See "Business — Exploration & Production — Principal oil and natural gas regions". Overall, total overseas sales of crude oil increased from 332 Mbbl in the six months ended 30 June 2005 to 444 Mbbl in the six months ended 30 June 2006, an increase of 34 per cent. Domestic crude oil sales decreased slightly from 2,318 Mbbl in the six months ended 30 June 2005 to 2,292 Mbbl in the six months ended 30 June 2006. The volume of crude oil sold includes 2,292 Mbbl of crude oil sold from the Exploration & Production business segment to the Refining & Wholesale business segment in the six months ended 30 June 2006 (2,318 Mbbl in the six months ended 30 June 2005), which represented all of INA Group's domestic crude production.

In both the six months ended 30 June 2005 and 2006, natural gas sales accounted for the largest part of the Exploration & Production business segment's product sales (approximately 56 per cent. and 48 per cent in the six months ended 30 June 2005 and 2006, respectively), while crude oil sales accounted for approximately 28 per cent. and 32 per cent. of the Exploration & Production business segment's total product sales in the six months ended 30 June 2005 and 2006, respectively. Remaining sales in the Exploration & Production business segment consisted of the sale of condensate (approximately 9 per cent. and 10 per cent. in the six months ended 30 June 2005 and 2006, respectively), LPG and other products. The increase in 2006 also reflected higher sales attributable to Crosco's drilling and workover activities.

Refining & Wholesale

Sales in the Refining & Wholesale business segment increased from HRK 6,565 million in the six months ended 30 June 2005 to HRK 7,833 million in the six months ended 30 June 2006, an increase of 19.3 per cent. This primarily reflected an increase of 31.2 per cent. in weighted average sales prices in the six months ended 30 June 2006 compared to the six months ended 30 June 2005, due to rising refined product prices, an improved product mix towards a lower proportion of lower margin heavy fuel oil, increased output of higher value Eurograde products and higher utilization levels at the Sisak refinery. As a result of INA Group's refinery configuration and the demands of certain customers, relatively high levels of fuel oil have been produced historically. Throughput volumes at INA Group's refineries decreased from 2.5 MMt in the six months ended 30 June 2005 to 2.3 MMt in the six months ended 30 June 2006, principally due to the planned overhaul shutdown for 45 days at the Rijeka refinery, notwithstanding the overhaul of the Sisak refinery in 2005.

Retail

Sales in the Retail business segment increased from HRK 2,110 million in the six months ended 30 June 2005 to HRK 2,558 million in the six months ended 30 June 2006, an increase of 21.2 per cent. This principally reflected retail price increases as a result of rising refined product prices (notwithstanding the fact that prices were held back as the result of State Influence), combined with a small increase in sales volumes in the six months ended 30 June 2006 compared to 2005.

The Retail business segment's product sales consisted primarily of the sale of diesel and gasoline. While gasoline sales remained broadly flat, INA Group experienced an 8 per cent. increase in the volume of diesel sold during the period under review. Sales volumes of heating oil fell by approximately 7 per cent. in the six months ended 30 June 2006 compared to the six months ended 30 June 2005, principally due to a depot closure. In addition, sales of non-fuel products accounted for HRK 222 million (approximately 11 per cent.) and HRK 240 million (approximately 9 per cent.) of total product sales in the six months ended 30 June 2005 and 30 June 2006, respectively.

Corporate and Other

Sales in the Corporate and Other business segment decreased slightly from HRK 444 million in the six months ended 30 June 2005 to HRK 439 million in the six months ended 30 June 2006, a decrease of 1.1 per cent. This principally reflected a decrease in sales of maintenance services by STSI to the Refining & Wholesale business segment in the six months ended 30 June 2006 compared to 2005, due to the fact that in the first six months of 2005, STSI performed certain maintenance services at the Sisak refinery, while similar maintenance services at the refinery in 2006 have been or are expected to be largely performed after 30 June.

Inter-segment sales (eliminations)

Inter-segment sales (eliminations) increased from HRK 2,964 million in the six months ended 30 June 2005 to HRK 3,739 million in the six months ended 30 June 2006, an increase of 26.1 per cent. This principally reflected greater inter-segment sales in both the Exploration & Production and Refinery & Wholesale business segments, principally due to an increase in the price of crude oil in 2006 and the resulting increase in refined products prices.

Operating expenses

INA Group's operating expenses, net of income from own consumption of products and services and other operating income, increased by 17.6 per cent. over the period, from HRK 8,600 million in the six months ended 30 June 2005 to HRK 10,114 million in the six months ended 30 June 2006. This primarily reflected the increasing costs of raw materials and consumables, costs of other goods for resale, service costs and increasing staff costs.

The cost of raw materials and consumables increased from HRK 4,538 million in the six months ended 30 June 2005 to HRK 5,382 million in the six months ended 30 June 2006 due to a rise in the cost of crude oil and feedstock. The cost of other goods sold increased from HRK 1,486 million to HRK 1,916 million, primarily because the average price in Kuna of imported Russian natural gas increased by approximately 45 per cent. during the period. The prices of imported oil products rose due to higher international market prices and larger quantities of refined products were imported to supply the market from mid-April to the end of May while the Rijeka Refinery overhaul shutdown was in progress. Staff costs increased from HRK 1,084 million in the six months ended 30 June 2005 to HRK 1,155 million in the six months ended 30 June 2006, primarily due to an increase in salaries of approximately 9 per cent. effective from March 2006 and increased retirement incentive payments. Service costs increased from HRK 1,200 million in the six months ended 30 June 2005 to HRK 1,627 million in the six months ended 30 June 2006 for the reasons described below. Depreciation increased from HRK 505 million in the six months ended 30 June 2005 to HRK 543 million in the six months ended 30 June 2006 for the reasons described below.

Increased costs were offset by increases in income from own consumption and other operating income, which increased by HRK 227 million and HRK 76 million, respectively. The increase in income from own consumption was principally due to the increased capitalization in the six months ended 30 June 2006 of the costs of STSI and Crosco staff working on INA Group internal maintenance projects. The increase in other operating income was principally due to the release of provisions and reversals of asset impairments.

Exploration & Production

The key operating expenses for the Exploration & Production business segment have been the purchase of imported Russian natural gas (reported as "costs of other goods sold"), operating expenses of oil and gas fields (distributed among a number of headings from an accounting perspective), costs of transportation of gas (for domestic gas, reported as "logistical costs"), staff costs and depletions, depreciation and amortization.

The Exploration & Production business segment's operating expenses, net of income from own consumption of products and services and other operating income, increased from HRK 2,286 million in the six months ended 30 June 2005 to HRK 2,723 million in the six months ended 30 June 2006, an increase of 19.1 per cent. This increase was primarily due to an increase in the cost of imported Russian natural gas from HRK 770 million in the six months ended 30 June 2005 to HRK 1,042 million in the six months ended 30 June 2006. This was offset by an increase in other operating income, as a result of provision releases and asset impairment reversals.

Service costs increased in the six months ended 30 June 2006 compared to the six months ended 30 June 2005, principally due to: (i) an accrual for ENI's part of the profit tax on Northern Adriatic gas production for 2006 according to the production sharing agreements; and (ii) higher service costs incurred by Crosco due to increased business activity in the six months ended 30 June 2006 compared to the six months ended 30 June 2005. Impairment charges, dominated by charges for asset impairments and impairments for dry wells, increased in the six months ended 30 June 2006 compared to the six months ended 30 June 2005.

Refining & Wholesale

The Refining & Wholesale business segment's operating expenses, net of income from own consumption of products and services and other operating income, increased from HRK 6,531 million in the six months ended 30 June 2005 to HRK 7,805 million in the six months ended 30 June 2006, an increase of 19.5 per cent. This was primarily due to an increase in the costs of raw materials and consumables in the six months ended 30 June 2006 compared to the six months ended 30 June 2005. The major contributing factor to the increase in costs of raw materials and consumables was an increase of 36 per cent. in the average purchase price of crude oil, caused by an increase in Brent prices on the Mediterranean market, which were offset in part by the temporary purchase of an increased proportion of lower cost REB in the crude oil mix.

Imported crude oil was the principal source of supply for crude oil for the Refining & Wholesale business segment, having accounted for approximately 80 per cent, of crude purchases in both the six months ended 30 June 2005 and the six months ended 30 June 2006 notwithstanding a slight decline in production at INA's domestic oil fields. The Refining & Wholesale business segment purchases the entire supply of INA's domestic oil fields. Of the imported crude oil, REB is the major type of crude oil purchased by INA and is cheaper relative to most other types of crude oil.

Other operating costs (which included imported refined products, depreciation, service costs, administration costs and staff costs) increased in the six months ended 30 June 2006 compared to the six months ended 30 June 2005, mainly as a result of higher imports of European-grade refined products and their increased average prices. However, maintenance costs decreased during the period as a result of the capitalization of maintenance costs, as described above.

Retail

Operating expenses, net of income from own consumption of products and services and other operating income, increased from HRK 2,153 million in the six months ended 30 June 2005 to HRK 2,566 million in the six months ended 30 June 2006, an increase of 19.2 per cent. This primarily reflected the increase in cost of goods sold, reflecting higher wholesale prices. This increase was offset in part by a reduction in impairment expenses during the period. In the six months ended 30 June 2005, the major component of impairment expenses related to impairment charges booked on certain petrol stations in accordance with IAS 36 — Impairment of Assets. Operating expenses also include impairment charges against certain retail stations. These charges were high largely due to the construction of new motorways in 2005, which reduced the volume of traffic passing petrol stations located on roads in rural areas, causing the value of certain such petrol stations to be written down in 2006.

Corporate and Other

Operating expenses, net of income from own consumption of products and services and other operating income, increased from HRK 594 million in the six months ended 30 June 2005 to HRK 759 million in the six months ended 30 June 2006, an increase of 27.8 per cent. This principally reflected an increase in service costs related to the preparation for INA's proposed listing on the Zagreb and London stock exchanges; higher consultancy services; insurance premiums; and a higher level of advertising, maintenance and rental costs. STSI's service costs decreased while Sinaco's service costs increased.

Profit from operations

INA Group's profit from operations increased from HRK 500 million in the six months ended 30 June 2005 to HRK 668 million in the six months ended 30 June 2006, or by 33.6 per cent., primarily due to higher crude oil sales prices and increased crude oil and natural gas production; an increased proportion of REB in the crude oil mix; an increased output of premium margin Eurograde products; and an improvement in the product mix towards a lower proportion of lower margin heavy fuel oil. Factors which limited the increase in profit from operations between the periods included increased losses on imports of Russian natural gas and higher costs (particularly staff and logistics costs).

Exploration & Production

The Exploration & Production business segment's profit from operations increased from HRK 659 million in the six months ended 30 June 2005 to HRK 968 million in the six months ended 30 June 2006, an increase of 46.9 per cent. This increase primarily reflected the increase in sales for the reasons discussed above.

Refining & Wholesale

Profit from operations in the Refining & Wholesale business segment fell from HRK 34 million in the six months ended 30 June 2005 to HRK 28 million in the six months ended 30 June 2006, or by 17.6 per cent. This primarily reflected the increase in the average purchase price of crude oil which the Refining & Wholesale business segment was unable to fully pass on to its customers, lower utilization levels at the Rijeka refinery and an increase in the costs of refined products imported for resale, which outweighed certain positive factors discussed above in relation to sales in the Refining & Wholesale business segment.

Retail

Operating losses for the Retail business segment decreased from HRK 43 million in the six months ended 30 June 2005 to HRK 8 million in the six months ended 30 June 2006, a decrease of 81.4 per cent. This primarily was the result of the reduction of the fixed margin agreed between the Retail and Refining & Wholesale business segments (which was reduced to reflect the adverse impact of the unofficial price cap resulting from State

Influence), which was offset in part by lower service costs (primarily maintenance expenses), lower other material expenses and lower impairment charges, as well as an increase in the margin on non-fuel products in the period.

Corporate and Other

Operating losses for the Corporate and Other business segment increased from HRK 150 million in the six months ended 30 June 2005 to HRK 320 million in the six months ended 30 June 2006, an increase of 113 per cent. This primarily reflected the increase in Sinaco service costs.

Finance revenue

Finance revenue consists of foreign exchange gains, other interest income, dividends, gains on embedded derivatives and interest from financial assets. Finance revenue increased from HRK 175 million in the six months ended 30 June 2005 to HRK 346 million in the six months ended 30 June 2006, or by 97.7 per cent. This was primarily a result of an increase in foreign exchange gains from HRK 68 million in the six months ended 30 June 2005 to HRK 302 million in the six months ended 30 June 2006, principally due to the appreciation of the Kuna against the U.S. dollar.

Finance costs

Finance costs consist of foreign exchange losses, interest payable on long-term loans, other interest payable, losses on embedded derivatives and other financial expenses. Finance costs decreased from HRK 262 million in the six months ended 30 June 2005 to HRK 237 million in the six months ended 30 June 2006, a decrease of 9.5 per cent. This was primarily a result of external factors, such as the decrease in foreign exchange losses from HRK 160 million in the six months ended 30 June 2005 to HRK 106 million in the six months ended 30 June 2006. Losses on derivatives naturally embedded in certain contracts also decreased from HRK 16 million in the six months ended 30 June 2005 to zero in the six months ended 30 June 2006 due to favorable rates of exchange and/or interest rates implied in the contracts. This was partially offset, however, by an increase of 43.5 per cent. in interest payable on long-term loans from HRK 23 million in the six months ended 30 June 2005 to HRK 33 million in the six months ended 30 June 2006. Other interest payable also increased by 57 per cent. from HRK 56 million in the six months ended 30 June 2005 to HRK 88 million in the six months ended 30 June 2006 due to interest payable on a tax payment due, following an agreement with the Croatian taxation authorities.

Taxation

The domestic income tax rate is calculated at 20 per cent. of 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. INA Group is subject to corporate tax on its taxable profits in Croatia. The effective tax rate for INA Group in the six months ended 30 June 2006 was 18.9 per cent.

Current taxes have increased from HRK 114 million in the six months ended 30 June 2005 to HRK 144 million in the six months ended 30 June 2006, mainly due to the increase of profit before tax. Deferred taxes have moved from a credit of HRK 40 million in the six months ended 30 June 2005 to a debit of HRK 3 million in the six months ended June 2006.

Profit/(loss) for the year

For the reasons set forth above, net profit increased from HRK 339 million in the six months ended 30 June 2005 to HRK 630 million in the six months ended 30 June 2006.

Year Ended 31 December 2005 Compared to Year Ended 31 December 2004

Consolidated sales

INA Group's consolidated sales increased by 17.1 per cent. from HRK 17,988 million in 2004 and to HRK 21,070 million in 2005. This primarily reflected rising crude oil and natural gas prices and average refined product prices, while volumes remained largely unchanged.

Exploration & Production

Sales in the Exploration & Production business segment increased by 15.7 per cent. from HRK 5,710 million in 2004 to HRK 6,607 million in 2005. The increase primarily reflected the rise of the weighted average sales prices of natural gas sold by 7.2 per cent. and a 42.1 per cent. average increase in the price of crude oil sold as well as the increase of Crosco's revenues from third party services, the effects of which were partially offset by a small decline in the volume of natural gas sold during the period.

The volume of natural gas sold decreased slightly from 101.3 Bcf in 2004 to 97.2 Bcf in 2005. Domestic onshore and offshore production remained broadly flat at approximately 65.3 Bcf per annum. Revenues from natural gas sales increased from HRK 2,738 million in 2004 to HRK 2,802 million in 2005. Nevertheless, natural gas losses on imported Russian gas increased in 2005 compared to 2004 due to a widening differential between imported natural gas prices and the weighted average price of natural gas sold, which is subject to contractual and regulatory arrangements.

The volume of crude oil sold during the year declined from 6,197 Mbbl in 2004 to 6,072 Mbbl in 2005. This reflected a decline of domestic crude oil production over the period as INA's onshore fields in Croatia continued to mature, which was partially offset by an increase in overseas production of 281 Mbbl. This increase reflected the initiation of new production in INA Group's Egyptian wells during 2005 and the commencement of crude oil production in Syria in November 2005. See "Business — Exploration & Production — Principal Oil and Natural Gas Regions". The volume of crude oil sold includes 4,678 Mbbl of crude oil sold from INA Group's Exploration & Production business segment to INA Group's Refining & Wholesale business segment in 2005 (5,084 Mbbl in 2004), which represents all INA's domestic crude production.

In both 2004 and 2005 natural gas sales accounted for the largest part of the Exploration & Production business segment's product sales (approximately 55 per cent. in 2004 and approximately 48 per cent. in 2005), while crude oil accounted for approximately 28 per cent. and 32 per cent. of the Exploration & Production business segment's total product sales in the 2004 and 2005, respectively. Remaining sales consisted of the sale of condensate (approximately 9 per cent. in both years), LPG and other products.

Refining & Wholesale

Sales in the Refining & Wholesale business segment increased by 20.8 per cent. from HRK 13,018 million in 2004 to HRK 15,724 million in 2005. This primarily reflected the rising international market price for refined products. Rising crude oil prices were not fully passed on in prices of refined products because of contractual, regulatory pricing constraints or pricing constraints resulting from State Influence.

Aggregate diesel fuel and gasoline sales volumes increased slightly and fuel oil sales volumes increased due to technical problems at the Rijeka refinery and an overhaul at the Sisak refinery.

Retail

Sales in the Retail business segment increased by 15.4 per cent. from HRK 4,328 million in 2004 to HRK 4,994 million in 2005. This principally reflected retail price increases at the pump as a result of rising refined product prices, which were partially offset by a slight decline in volumes during the period. The decline in volumes was caused by the transfer of home delivery of heating oil sales from the Retail business segment to the Refining & Wholesale business segment on 1 January 2005. Adjusting for the impact of the transfer, sales volumes increased slightly between 2004 and 2005.

The Retail business segment's product sales consisted primarily of the sale of diesel and gasoline. While gasoline sales remained broadly flat, the Retail business segment experienced an increase in diesel sales from 39 per cent. to 46 per cent. in the period under review. Sales volumes of heating oil fell from 8 per cent. in 2004 to 3 per cent. in 2005 due to the transfer of home delivery sales from the Retail business segment to the Refining & Wholesale business segment described above. Sales of non-fuel products accounted for approximately 10 per cent. of total product sales in both 2004 and 2005.

INA has experienced a change in its product sales mix between gasoline and diesel during the period. Sales of diesel products accounted for approximately half of total refined product sales and generated approximately 46 per cent. of the total sales (including non fuel) in 2005, compared to approximately one third in 2003. This reflects the trend towards diesel powered vehicles in Croatia and the Core Region.

Corporate and Other

Sales in the Corporate and Other business segment increased from HRK 801 million in 2004 to HRK 973 million in 2005, an increase of 21.5 per cent. This principally reflected an increase in sales from services provided by STSI.

Inter-segment sales (eliminations)

Inter-segment sales (eliminations) increased from HRK 5,869 million in 2004 to HRK 7,228 million in 2005, an increase of 23.2 per cent. This principally reflects the greater inter-segment sales in both the Exploration & Production and Refinery & Wholesale business segments, principally reflecting an increase in the crude oil price in 2005 and the resulting increase in refined products prices.

Operating expenses

INA Group's operating expenses, net of income from own consumption of products and services and other operating income increased by 18.7 per cent over the period from HRK 16,565 million in 2004 and HRK 19,660 million in 2005. This primarily reflected the increasing costs of raw materials and consumables, costs of other goods for resale and increasing staff costs.

The cost of raw materials and consumables, which accounted for over 50 per cent. of operating costs in 2005, increased from HRK 8,293 million in 2004 to HRK 11,024 million in 2005 due to a rise in the cost of crude oil and feedstock. The cost of other goods sold increased from HRK 2,794 million to HRK 3,307 million primarily because the price of imported Russian natural gas rose by approximately 40 per cent. and the required level of Eurograde imports rose to meet shortfalls in INA Group's production. Staff costs increased from HRK 1,969 million in 2004 to HRK 2,257 million in 2005 primarily due to an increase in salaries of 9 per cent. and increased retirement incentive payments. Other material costs increased marginally from HRK 2,028 million in 2004 to HRK 2,206 million in 2005. Non-material costs increased marginally from HRK 955 million in 2004 to HRK 1,008 million in 2005. Depreciation and amortization decreased from HRK 1,001 million in 2004 to HRK 993 million in 2005.

Exploration & Production

The Exploration & Production business segment's operating expenses, net of income from own consumption of products and services and other operating income increased from HRK 4,626 million 2004 to HRK 5,045 million 2005, representing an increase of 9.1 per cent. This increase was primarily due to an increase in the cost of imported Russian natural gas (resulting from the price increase described above) and higher import volumes, which were partly compensated for by the adjusted value of inventories. Until 1 September 2005, inventories were assumed to reflect only volumes of imported natural gas. Subsequently, the way in which gas inventories are recorded was changed so as to reflect both domestic and imported gas. The assumed quantities of higher value imported gas inventories were thus reduced and, as a result, there was an increase in the cost of gas sold.

Refining & Wholesale

The Refining & Wholesale business segment's operating expenses, net of income from own consumption of products and services and other operating income, increased from HRK 12,185 million in 2004 to HRK 15,325 million in 2005, representing an increase of 25.8 per cent. This increase was primarily due to an increase in the costs of processed crude oil in line with international market prices, an increase in the cost of imported refined products for production and increased cost of imported atmospheric residue for Maziva Rijeka consumption.

Other operating costs (which include depreciation, cost of services, staff costs, current and non-current asset adjustments and impairment, provisions for charges and risks) increased mainly due to higher staff costs and costs of services. In particular, the increased costs of services resulted from increased tariffs for road transportation services and a change in the accounting treatment of road transportation services. In 2004, transportation costs were recorded under cost of other goods for resale, while in 2005 they were charged against transportation costs in road transport. Customer volume discounts also increased in 2005 to support market share.

Retail

The Retail business segment's operating expenses, net of income from own consumption of products and services and other operating income increased from HRK 4,247 million in 2004 to HRK 4,929 million 2005, representing an increase of 16.1 per cent. The increase was driven by an increase in costs of goods sold, as a result of higher refined products prices, partially offset by the transfer of home delivery sales from the Retail business segment to the Refining & Wholesale business segment on 1 January 2005. Other operating expenses increased due to salary increases, severance payments, and Retail employee numbers increasing by approximately 3 per cent. in the period from 2004 to 2005 as a result of network expansion.

Corporate and Other

The Corporate and Other business segment's operating expenses, net of income from own consumption of products and services and other operating income (including approximately HRK 60 million (U.S.$10 million) received from escrow as consideration for the White Nights sale, see "— Contingencies — Disposal of White Nights") increased from HRK 1,376 million in 2004 to HRK 1,589 million 2005, representing an increase of 15.5 per cent. This principally reflected increased trading of the subsidiaries, mainly due to STSI's higher costs of sub-contract and services for products.

Profit from operations

INA Group's profit from operations decreased by 0.9 per cent. from HRK 1,423 million in 2004 to HRK 1,410 million in 2005, primarily due to the fact that an increased profit from operations in the Exploration & Production business segment was more than offset by a decline in profit from operations in the Refining & Wholesale and Retail business segments.

Exploration & Production

The Exploration & Production business segment's profit from operations increased from HRK 1,084 million in 2004 to HRK 1,562 million in 2005, an increase of 44.1 per cent. This increase primarily reflected an increase in the weighted average sales prices of natural gas sold by the Exploration & Production business segment of 7.2 per cent., and an increase in the price of crude oil sold by the Exploration & Production business segment in line with international market prices compared to a 9.1 per cent. increase in operating expenses. The reduced growth in operating expenses compared to sales reflects the largely fixed nature of the business segment's costs.

Refining & Wholesale

Profit from operations for the Refining & Wholesale business segment fell from HRK 833 million in 2004 to HRK 399 million in 2005, or by 52.1 per cent. This reflected: (i) an increase in crude oil prices in excess of the increase in weighted average sales prices., which reflected contractual regulatory and government pricing constraints as well as pricing constraints resulting from Shareholder Influence; (ii) a reduction in the import tariff from 6.1 per cent. in 2004 to 4.2 per cent. in 2005; (iii) a deterioration in the product mix towards fuel oil; (iv) a fall in Eurograde fuel production and a consequent significant increase in the quantity of imports to meet the shortfall in Eurograde production; and (v) a reduction in overall production as a result of lower utilization levels, particularly at Sisak. Although Eurograde production fell in absolute terms, it increased as a proportion of motor gasoline and gas oils production because production volumes fell during the period from 3,097Mt to 2,771Mt.

Retail

The Retail business segment had profit from operations of HRK 81 million in 2004, compared to profit from operations of HRK 65 million in 2005. This reflected higher gross margins in 2005 that were more than offset by increased staff costs, higher impairment charges and the transfer of the profitable heating oil home delivery business from the Retail business segment to the Refining & Wholesale business segment.

Corporate and Other

The Corporate and Other business segment's operating losses increased from HRK 575 million in 2004 to HRK 616 million in December 2005, or by 7.1 per cent., mainly due to increased losses within Corporate Functions, resulting from an increase in operating expenses overall. This was partly offset by the favorable operating results of STSI, ITR and Hostin, while the operating profit of Sinaco decreased.

Finance revenue

Finance revenue decreased from HRK 354 million in 2004 to HRK 181 million in 2005, or by 48.9 per cent., primarily as a result of the decrease in foreign exchange income from HRK 300 million in 2004 to HRK 127 million in 2005, primarily due to the depreciation of the Kuna against the U.S. dollar.

Finance costs

Financial costs increased by 41.1 per cent. from HRK 367 million in 2004 to HRK 518 million in 2005, primarily as a result of external factors, such as the increase in foreign exchange losses (HRK 204 million to HRK 310 million and in other interest payable HRK 104 million to HRK 143 million) resulting from interest payable due to interest accrued on a tax payment.

Taxation

Current taxes decreased from HRK 313 million in 2004 to HRK 236 million in 2005, mainly due to a decrease in profit before tax. Deferred taxes increased from a credit of HRK 10 million in 2004 (due to an increase in net profit) to a charge of HRK 25 million in 2005 (due to a decrease of net profit).

Profit/(loss) for the year

For the reasons set forth above, net profit decreased from HRK 1,130 million in 2004 to HRK 885 million in 2005.

Year Ended 31 December 2004 Compared to Year Ended 31 December 2003

Consolidated sales

INA Group's consolidated sales increased by 17.2 per cent. from HRK 15,345 million in 2003 to HRK 17,988 million in 2004. This primarily reflects an increase in the average sales price of refined products to wholesale customers and an increase of retail prices at the pump to reflect the increase in international refined products prices, as well as an increase in the volume of natural gas sold by 5.7 per cent.

Exploration & Production

Sales in the Exploration & Production business segment increased from HRK 5,416 million in 2003 to HRK 5,710 million in 2004, an increase of 5.4 per cent. The increase in aggregate sales was a result of: (i) the increase in average natural gas sales prices due to increased prices for tariff customers during 2004, (ii) an increase in the average price of crude oil sold by the Exploration & Production business segment, which was offset by a decline in crude oil volumes sold of approximately 6 per cent.; and (iii) increased revenues from services performed abroad by Crosco.

In both 2003 and 2004, natural gas sales accounted for the largest part of the Exploration & Production business segment's sales (in the former year approximately 57 per cent., and in the latter year approximately 55 per cent.), while crude oil accounted for over 27 per cent. and over 28 per cent. of total product sales, respectively. Remaining product sales consisted of the sale of condensate (approximately 8 per cent. in 2003 and 2004), LPG and other products.

The volume of natural gas sold increased slightly from 95.8 Bcf in 2003 to 101.3 Bcf in 2004. Domestic onshore and offshore production remained broadly flat at 65.3 Bcf per annum, with the increase in sales volumes coming from imports. Revenue from natural gas sales by the Exploration & Production business segment increased slightly from HRK 2,662 million in 2003 to HRK 2,738 million in 2004.

Natural gas losses on sales of imported Russian natural gas increased from 2003 to 2004 due to a higher proportion of natural gas having been sold to eligible customers who benefited from preferential contractual and regulatory arrangements.

The volume of crude oil sold declined from 6,557 Mbbl in 2003 to 6,197 Mbbl 2004. This reflected a decline of domestic crude production over the period, due to the declining production curve for INA Group's mature fields in Croatia. Revenue from crude oil sales increased slightly from HRK 1,273 million in 2003 to HRK 1,378 million in 2004. The volume of crude oil sold included 5,084 Mbbl to INA Group's Refining & Wholesale business segment (5,419 Mbbl in 2003), which represents all INA's domestic crude oil production.

Refining & Wholesale

Sales in the Refining & Wholesale business segment increased from HRK 11,503 million in 2003 to HRK 13,018 million in 2004, an increase of 13.2 per cent. in 2004. This reflected an increase in average sale prices despite a marginal decrease in sales volumes and a particularly positive product slate in line with demand.

Gasoline sales remained broadly flat, diesel fuel sales increased and fuel oil sales decreased.

Retail

Sales in the Retail business segment increased from HRK 3,778 million in 2003 to HRK 4,328 million in 2004, an increase of 14.6 per cent due to price increases, while volumes sold decreased slightly.

The Retail business segment's product sales consisted primarily of the sale of diesel and gasoline. As a percentage of total sales, diesel products increased in 2004 and reached 38.9 per cent. (compared with 34.9 per cent.

in 2003), while gasoline products declined by 1 per cent. in the same period (from 38.9 per cent. in 2003 to 37.6 per cent. in 2004).

Corporate and Other

Sales in the Corporate and Other business segment increased from HRK 720 million in 2003 to HRK 801 million in 2004, an increase of 11.3 per cent. This principally reflected increased sales in the subsidiaries.

Inter-segment sales (eliminations)

Inter-segment sales decreased from HRK 6,072 million in 2003 to HRK 5,869 million in 2004, a decrease of 3.3 per cent.

Operating expenses

INA Group's operating expenses, net of income from own consumption of products and services and other operating income increased by 9.3 per cent. over the period, from HRK 15,150 million in 2003 to HRK 16,565 million in 2004. This primarily reflected the increasing cost of raw materials and consumables and increasing staff costs.

Exploration & Production

The Exploration & Production business segment's operating expenses, net of income from own consumption of products and services and other operating income, decreased marginally from HRK 4,727 million in 2003 to HRK 4,626 million in 2004. This was due to an increase in cost of other goods sold offset by a decline in impairment charges and certain other cost categories (such as logistical costs, the cost of raw materials and consumables and the cost of services in Crosco's income statement). The cost of imported Russian natural gas increased from HRK 1,249 million in 2003 to HRK 1,390 million in 2004.

Refining & Wholesale

The Refining & Wholesale business segment's operating expenses, net of income from own consumption of products and services and other operating income, increased from HRK 11,531 million in 2003 to HRK 12,185 million in 2004.

Operating expenses for raw materials and consumables increased in 2004 compared to 2003 mainly as a result of the increase in the average price of imported crude oil.

Operating expenses of items other than raw materials and consumables and costs of other goods for resale increased due to higher staff costs and costs of services (transportation and maintenance costs incurred in Proplin).

Retail

The Retail business segment's operating expenses, net of income from own consumption of products and services and other operating income, increased from HRK 3,644 million in 2003 to HRK 4,247 million in 2004. Costs of goods sold increased because of an increase in average fuel purchase prices. In 2004, salary costs increased by approximately 18 per cent. as a result of the salary increase under a collective agreement settled by INA with three trade unions and increased employee numbers arising from network expansion. Other costs decreased due to a reduction in utility and administration costs.

Corporate and Other

The Corporate and Other business segment's operating expenses, net of income from own consumption of products and services and other operating income, increased from HRK 1,320 million in 2003 to HRK 1,376 million in 2004, representing an increase of 4.2 per cent. This principally reflected higher asset adjustments (in 2004, a HRK 66 million provision had been made for INA's interest in Crobenz), a higher amount of provisions for terminal and long-term service benefits, and increased costs of services of the subsidiaries.

Profit from operations

INA Group's profit from operations increased from HRK 195 million in 2003 to HRK 1,423 million in 2004 for the reasons described below.

Exploration & Production

The Exploration & Production business segment's profit from operations increased from HRK 689 million in 2003 to HRK 1,084 million in 2004, or by 57.3 per cent., primarily reflecting an increase in crude oil sales and a lower proportion of imported Russian natural gas and an increase in the volume of domestically produced natural gas sold.

Refining & Wholesale

The Refining & Wholesale business segment had an operating loss of HRK 28 million in 2003, compared to an profit from operations of HRK 833 million in 2004. This reflected: (i) an increase in the average sales price for refined products outweighing crude oil price increases; (ii) an improvement in the production mix so that a higher proportion of higher margin 'light' oil was refined; (iii) increased output of Eurograde product; and (iv) increased utilization at the Sisak refinery following the reconstruction and upgrade of secondary units.

Retail

The Retail business segment's profit from operations decreased from HRK 134 million in 2003, compared to a profit from operations of HRK 81 million in 2004, or by 39.6 per cent. This reflected: (i) relatively flat volumes (1.2 MMt); (ii) a reduction in the gross profit per liter afforded to the Retail business segment through the reduction of the average internal transfer price; and (iii) underperformance of some retail outlets.

Corporate and Other

The Corporate and Other business segment's operating losses decreased from HRK 600 million in 2003 to HRK 575 million in 2004.

Finance revenue

The relative strengthening of the Kuna against the U.S. dollar in 2003 had a major impact on finance revenue. Finance revenue decreased from HRK 783 million in 2003 to HRK 354 million in 2004, or by 54.8 per cent., primarily as a result of the decrease in foreign exchange gains (from HRK 542 million to HRK 300 million), dividends (from HRK 117 million to HRK 11 million) and gains on derivatives naturally embedded in certain contracts (from HRK 74 million to HRK 9 million). Finance revenue also increased by HRK 96 million in 2003 as a result of the disposal of a minority holding in Privredna Banka Zagreb.

Finance costs

Finance costs decreased by 19.3 per cent. from HRK 455 million in 2003 to HRK 367 million in 2004, primarily as a result of external factors, such as the decrease in foreign exchange losses from HRK 289 million in 2003 to HRK 204 million in 2004 due to the appreciation of the Kuna relative to the U.S. dollar.

Taxation

Taxes paid increased from HRK 4 million in 2003 to HRK 313 million in 2004, principally due to the exhaustion of deferred tax assets in 2003. Deferred taxes decreased from HRK 60 million in 2003 to HRK 10 million in 2004.

Profit/(loss) for the year

For the reasons set forth above, net profit increased from HRK 594 million in 2003 to HRK 1,130 million in 2004.

Liquidity and Capital Resources

The table below sets forth INA Group's summarized cash flows for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2003 (Restated)	2004 (Restated)	2005	2005 (Unaudited)	2006 (Unaudited)
	(in HRK millions)				
Cash flow from operating activities	1,608	3,036	1,249	248	769
Cash from investing activities	(2,043)	(2,238)	(1,980)	(919)	(1,223)
Cash used in/from financing activities	(41)	(386)	354	392	464
Decrease/increase in cash and cash equivalents	(476)	412	(377)	(279)	10
Cash and cash equivalents at the start of the period	831	334	714	714	376
Effect of foreign exchange rate changes	(21)	(32)	39	39	10
Cash and cash equivalents at the end of the period	334	714	376	474	396

Operating activities

INA Group's cash flow from operating activities was HRK 1,608 million, HRK 3,036 million and HRK 1,249 million in 2003, 2004 and 2005, respectively.

An increase in cash flow from operating activities in 2004 was due to increased profit from operations, as previously discussed, and a favorable movement in working capital. In 2005, a reduction in cash flow from operating activities was due to a lower level of profit from operations and an unfavorable movement in working capital.

In the six months ended 30 June 2005, INA Group's cash flow from operating activities was HRK 248 million, compared to HRK 769 million in the six months ended 30 June 2006. This was due to increased profit from operations in the six months ended 30 June 2006, as discussed above, and lower working capital movements due to a build-up in stock levels in the six months ended 30 June 2005.

Investing activities

INA Group's net cash outflow from investing activities was HRK 2,043 million, HRK 2,238 million and HRK 1,980 million in 2003, 2004 and 2005, respectively.

INA Group's investing activities primarily include capital expenditure. Investing activities were met in part by cash received from dividends and proceeds from the sale of investments. These sales included, in 2003, HRK 117 million from the sale of shares in Privredna banka Zagreb and, in 2005, HRK 222 million from the sale of Crosco Noble Drilling.

In the six months ended 30 June 2005, INA Group's net cash outflow from investing activities was HRK 919 million, compared to HRK 1,223 million in 2006. Almost all this capital expenditure related to INA d.d., the majority of which related to activities in the Exploration & Production business segment.

For a more detailed explanation of INA Group's historical capital expenditure see "— Capital Expenditure".

Financing activities

Net cash used in financing activities was HRK 41 million and HRK 386 million in 2003 and 2004, respectively, compared to cash received from financing activities of HRK 354 million in 2005. In 2003, net cash used in financing activities reflected an increase in short and long-term borrowings which were more than offset by the repayment of long-term borrowings and interest paid on long and short-term loans and other financing charges. In 2004, net cash used in financing activities principally reflected the repayment of long and short-term borrowings, which was offset, in part, by the incurrence of additional long-term indebtedness. In 2005, net cash flows from financing activities principally reflected drawdowns under short-term loan facilities, as well as the incurrence of additional long-term indebtedness, which were offset in part by the repayment of long-term borrowings. The net cash inflow in 2005 reflected net drawdowns of loans in excess of loan repayments. In the six months ended 30 June 2005, net cash inflow from financing activities was HRK 392 million, compared to HRK 464 million in the six months ended 30 June 2006. This increase reflected an increase in additional long-term borrowings and a decrease in the repayment of long term borrowings, which was not entirely offset by the decline in drawdowns under short-term loan facilities.

Capital Expenditure

	Year ended 31 December			Six months ended 30 June	
	2003 (Restated)	2004 (Restated)	2005	2005 (Unaudited)	2006 (Unaudited)
	(in HRK millions)				
Exploration & Production:					
Property, plant and equipment	995	1,034	1,158	382	620
Intangible assets	644	537	241	111	151
Total Exploration & Production	1,639	1,571	1,399	493	771
Refining & Wholesale:					
Property, plant and equipment	491	869	606	202	394
Intangible assets	5	2	5	—	1
Total Refining & Wholesale	496	871	611	202	395
Retail:					
Property, plant and equipment	204	179	123	25	13
Intangible assets	—	—	2	2	—
Total Retail	204	179	125	27	13
Corporate and Other:					
Property, plant and equipment	233	199	116	59	91
Intangible assets	13	22	86	6	63
Total Corporate and Other	246	221	202	65	154
Inter-segment eliminations:					
Property, plant and equipment	(426)	(526)	(200)	—	(23)
Intangible assets	—	—	(5)	—	(56)
Total inter-segment eliminations	(426)	(526)	(205)	—	(79)
Total capital expenditure	2,159	2,316	2,132	787	1,254
of which:					
Property, plant and equipment	1,497	1,755	1,803	668	1,095
Intangible assets	662	561	329	119	159

Total capital expenditure increased from HRK 2,159 million in 2003 to HRK 2,316 million in 2004, and then decreased to HRK 2,132 million in 2005. Historically, capital expenditure the Exploration & Production business segment comprised the bulk of total capital expenditures. Capital expenditure in the Exploration & Production business segment in 2003, 2004 and 2005, respectively, primarily related to development activities in the North Adriatic and Syria. The Refining & Wholesale business segment incurred capital expenditure in the three years ended 31 December 2005 primarily in relation to upgrade work at the two refineries. The Retail business segment has incurred capital expenditure in the three years ended 31 December 2005 primarily in relation to a refurbishment program of the petrol stations.

In the six months ended 30 June 2005 and 2006, total capital expenditure was HRK 787 million and HRK 1,254 million, respectively. Capital expenditure in the first half of 2005 was lower than in the first half of 2006, principally as a result of investment activity in the Exploration & Production business segment. In the first half of 2006, capital expenditure again principally reflected investment activity in the Exploration & Production business segment, as well as a material increase compared to the prior period in investments in the Refining & Wholesale business segment. Projects included exploration and development activities in Syria, the Adriatic and, to a lesser extent, Egypt and onshore Croatia, as well as the construction of a pipeline from the Adriatic fields to onshore Croatia. Capital expenditure in the Refining & Wholesale business segment primarily comprised capital expenditures incurred in the early stages of the refinery modernization program, as well as upgrading projects at the refineries. Capital expenditure in the Corporate Functions & Other business segment increased from HRK 65 million in the first half of 2005 to HRK 154 million in the first half of 2006, principally as a result of the implementation of SAP.

INA Group has budgeted aggregate capital expenditures for all business segments of approximately U.S.$ 2.6 billion for the period 2006 to 2010, and expects expenditures to be spread reasonably evenly across the period. This budget, together with allocations and timing of such expenditures, remains subject to adjustment, review and approval on an annual basis by the Supervisory and Management Boards and variances subject to matters beyond INA Group's control, including availability and cost of materials and equipment.

Within this budget, INA Group expects to spend approximately U.S.$200-250 million per year in the Exploration & Production business segment, investing in existing development projects in onshore and offshore Croatia, further exploration of existing properties and the acquisition of new concessions for exploration. The major part of the Refining & Wholesale business segment's expected annual expenditure of approximately U.S.$175 — 225 million is almost all allocated to the refinery modernization program. The Retail business segment is expected to invest approximately U.S.$30-40 million per year in restructuring and upgrading its existing network, and selectively constructing new sites in Croatia and neighbouring countries. Planned total expenditure in the period 2006-2010 of approximately U.S.$90 million in the Corporate & Other business segment is primarily related to completion of INA Group's new SAP-based information technology system, which is expected to be substantially complete within 2007, after which expenditures in the Corporate & Other business segment will be substantially lower.

Obligations

	As of 31 December			As of 30 June
	2003	2004	2005	2006
	(Restated)	(Restated)		(Unaudited)
	(in HRK millions)			
Long-term loans	1,125	842	748	1,123
Other non-current liabilities	219	178	162	158
Long-term provisions	1,179	1,443	1,759	1,388
Current liabilities	4,117	4,533	5,772	5,446
Employee benefits obligation	53	56	71	73
Total obligations	6,693	7,052	8,512	8,188

During the period under review, obligations primarily consisted of current liabilities (principally consisting of bank loans, overdrafts, and accounts payable), as well as long-term provisions (principally decommissioning charges) and long-term loans.

INA Group's obligations were HRK 6,693 million, HRK 7,052 million and HRK 8,512 million as at 31 December 2003, 2004 and 2005, respectively. The increase in obligations in 2005 was primarily a result of increased current liabilities (primarily accounts payable), resulting from a temporary increase in accruals arising from significant consignments of crude oil in transit. As of 30 June 2006, INA Group's obligations had fallen to HRK 8,188 million from HRK 8,512 million as of 31 December 2005. This was primarily a result of a decrease in long-term provisions, due to the reversal of a provision for tax liabilities of HRK 193 million, and the consequences, amounting to HRK 177 million, of changing the methodology for calculating a decommissioning provision. These decreases were partially offset by a new tranche of the long-term loan from Mizuho/PBZ in the amount of U.S.$85 million. See "— Long-Term Loans" below.

Bank loans and overdrafts amounted to HRK 1,434 million, HRK 807 million and HRK 936 million as of 31 December 2003, 2004 and 2005, respectively. As of 30 June 2006, they amounted to HRK 1,510 million. These balances are included within current liabilities.

Long-Term Loans

Bank	Loan description	Currency	Year ended 31 December 2003 (Restated)	2004 (Restated)	2005	Six months ended 30 June 2006 (Unaudited)
			(in HRK millions)			
Mizuho/ Zagrebačka banka	Syndicates/Revolving	USD	787	483	267	124
Banca Commerciale Italiana	Pipeline construction	USD	118	59	—	—
London Club	Series A and B Bonds	USD	2	—	—	—
Paris Club	Original and Bilateral	Various	79	—	—	—
PBZ — API 80003	Loan	USD	—	2	2	2
ESB Bank	Loan (equipment)	USD/EUR	—	43	37	31
Viktor Lenac	Loan (equipment)	Various	—	12	12	5
Jugobanka	Loan (equipment)	YEN	—	16	16	15
Montana Gas	Gas supply loan	EUR	74	48	22	9.7
HVB	Loan	EUR	20	9	—	—
EBRD	Environmental	EUR	102	199	211	172
Mizuho/PBZ	Syndicates/Revolving	USD	—	141	405	868
Total long-term loans to INA			1,182	1,012	972	1,227
Due within one year			(449)	(462)	(476)	(290)
Other long-term Group loans			392	292	252	186
Total long-term loans to INA Group			1,125	842	748	1,123

The principal long-term loans outstanding at 30 June 2006 and the principal new loans drawn down and repaid during 2005 and the six months to 30 June 2006 were as follows.

Mizuho/Zagrebačka banka

During 2002, INA entered into a long-term financing arrangement with Mizuho and Zagrebačka banka. The loan is denominated in U.S. dollars. As of 30 June 2006, the loan balance was U.S.$21.4 million (HRK 124 million) included in amounts due within one year. The last instalment was paid on 22 July 2006.

ESB Bank and Viktor Lenac

Viktor Lenac, a shipyard, extended loans for the financing of imported equipment necessary for the construction and delivery of an offshore drilling platform. Subsequently, Viktor Lenac assigned one of its loans to ESB Bank. The balance outstanding as of 30 June 2006 was HRK 31 million (in U.S. dollars, Euros and Danish Kroner). Interest is payable on 31 January and 31 July annually, at various agreed rates:

(a) ESB Bank: for France at TMO plus 0.4 per cent., for the USA at 6 months U.S.Treasury plus 0.5 per cent., for the UK at 6 months LIBOR plus 0.5 per cent. and for the Netherlands at a fixed rate of 8.0 per cent.; and

(b) Viktor Lenac: DKK at 6 months CIBOR plus 0.5 per cent., U.S.$ at 6 months LIBOR plus 0.5 per cent. and EUR at 6 months EURIBOR plus 0.5 per cent.

Jugobanka

Loans from Jugobanka were used for the purchase of materials and equipment. The balance outstanding as of 30 June 2006 was HRK 15 million. Interest on these loans is paid at a fixed rate of 4.9 per cent. and 5.3 per cent. Loans are agreed with creditors under Paris Club's conditions.

Montana Gas

On 15 November 2001, INA d.d. was granted an export financing loan in the amount of €12.8 million, which related to LPG quantities based on a supply/purchase contract dated 16 July 1999. This must be repaid in kind not later than 30 December 2006 through supplies of LPG made by INA. As of 30 June 2006, the outstanding balance was €1.3 million (HRK 9.7 million). Interest on this loan is paid quarterly at a floating rate for 12 month EURIBOR plus 1.5 per cent.

EBRD

On 10 May 2001, the European Bank for Reconstruction and Development ("EBRD") extended a €36 million loan facility to INA to finance environmental projects. The facility is repayable in 12 semi-annual instalments, with the last instalment due to be repaid on 30 March 2011. The balance outstanding as of 30 June 2006 was €23.3 million (HRK 172 million). Interest on this facility is at the rate of 6-month EURIBOR plus 1 per cent. per annum.

Mizuho/PBZ

On 23 August 2004, a U.S.$400 million facility was arranged for INA by Citibank NA, ING, Mizuho and PBZ, with Mizuho acting as agent. It was amended on 11 November 2005. This multicurrency revolving facility is to be repaid in five years starting four years from the date of signing, and is to be used for general financing purposes, including the refinery modernization program. The final repayment date is 23 August 2009. The balance outstanding at 30 June 2006 was U.S.$150 million (HRK 868 million). The loan is repayable in semi-annual instalments, commencing from 23 August 2007, at an interest rate six-month LIBOR plus 0.7 per cent. per annum.

Other

INA is currently discussing a potential syndicated loan facility in order to secure sufficient long-term sources of funding for the refinery modernization program. See " — Factors affecting INA Group's Business and Results of Operations — Refinery performance and modernization".

Aggregate Contractual Obligations and Commitments

The following table contains an estimate of the principal contractual obligations that INA Group is obligated to make as of 30 June 2006 under its loans and debt instruments, capital and operating leases and other agreements. The information presented in the table below reflects management's best estimates relating to the maturities of INA Group's contractual obligations. These maturities may differ significantly from the actual maturity of these obligations due, for example, to early repayment.

	Total	Less than 1 year	1-3 years	3-5 years	After 5 years
			(in HRK millions)		
Long-term debt obligations(1)	1,413	290	1,089	34	—
Capital lease obligations(2)	2	1	1	0	—
Operating lease obligations(3)	4	1	3	—	—
Purchaser obligations(4)	10,135	2,009	6,079	1,822	225
Other long-term liabilities reflected on the INA's balance sheet under IFRS(5)	109	10	30	9	60
Total contractual obligations	11,663	2,311	7,202	1,865	285

Notes:

(1) Long-term debt obligations are the total of long-term loans as of 30 June 2006 (from the section "— Long-Term Loans" above) plus the current portion thereof (due within one year).

(2) Capital lease obligations include the leasing of storage tanks and vehicles.

(3) Operating lease obligations include the leasing of tanks for LPG storage.

(4) Purchaser obligations include obligations to purchase Russian natural gas (under INA's contract with Gazexport for the period 2005 to 2010); contracts for the transportation of natural gas through Slovakia (expiry: 2010); Slovenia (expiry: 2015) and Austria (expiry: 2017); long-term loans for investment, comprising obligations for purchases of crude oil and other services; refinery modernization costs; and provisions for retirement benefit obligations.

(5) Other long-term liabilities reflected on INA's balance sheet under IFRS include severance pay, provisions for litigation and concessions.

Off-Balance Sheet Arrangements

Off-balance sheet arrangements comprise guarantees provided by INA for the benefit of its subsidiaries.

INA's usual practice is to purchase crude oil through its foreign subsidiaries, using trade financing provided by a bank. This financing is usually supported by a corporate guarantee provided by INA. As of 30 June 2006, issued guarantees amounted to U.S.$235 million (HRK 1,361 million).

Other corporate guarantees are issued in favour of domestic subsidiaries (e.g., Crosco) and for INA Group's exploration and production activities abroad. These guarantees amounted to U.S.$36.4 million (HRK 211 million) as at 30 June 2006.

Bank guarantees are typically issued to cover INA Group's obligations relating to natural gas transportation and purchase costs, and the costs of overseas exploration activities. These guarantees amounted to U.S.$64.2 million (HRK 372 million) as at 30 June 2006.

The balance of outstanding letters of credit issued by INA in favour of foreign suppliers for imports of goods and services as of 30 June 2006 amounted to U.S.$17 million (HRK 98 million).

Contingencies

Environmental contingencies

The principal activities of INA Group have an affect on the environment. INA Group's activities are monitored by local management and environmental authorities. Provisions are recognized when INA 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. No provisions, other than an accrual for future costs relating to the decommissioning of INA Group's oil and natural gas properties of HRK 1.3 billion as at 31 December 2005, have been made for any possible future costs relating to environmental matters or remediation work which could possibly be required in respect of pollution resulting from INA Group's activities. Croatia has requested membership to the EU. As part of the accession process, strict environmental regulations similar to those at other EU countries are likely to be introduced in Croatia. These environmental regulations may result in environmental obligations to INA Group.

It is likely that the costs of, and provisions for, environmental matters will in the future be more material than in the past, particularly in view of an environmental audit which INA Group completed with an internationally recognized firm of environmental consultants, Golder Associates. See "Risk Factors — INA Group is required to comply with stringent environmental laws and regulations, which may change" and "Business — Health, Safety and Environment.

Disposal of White Nights

INA Group sold certain Russian interests known as White Nights in July 2002. As at the prior year end, U.S.$20 million of consideration due from the sale remained in escrow due to a dispute with the purchaser under the sale agreement relating to the lease of assets used in White Night's operations.

The U.S.$20 million was placed in escrow by the purchaser pending resolution of the dispute. During 2005, it was agreed by both parties to the dispute that U.S.$10 million of the amount in escrow should be released and paid to INA Group. This amount plus accrued interest of U.S.$20,000 was received on 8 August 2005 and treated as a cash release paid to INA Group which is accounted for as income.

INA Group intends to continue legal proceedings in order to obtain the release of the remaining U.S.$10 million, although there is no certainty that such amount will be received or when proceedings might be settled or completed. Any amounts received would be treated as income. These amounts of additional consideration were never included in the financial statements and no provisions exist in connection therewith.

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. 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.

In the ordinary course of business, INA Group has entered into certain long-term sales contracts which, under IAS 39, include embedded derivatives. These include contracts for the transportation of natural gas through Austria (with SNAM and OMV), Slovakia and Slovenia (with Geoplin) and transportation of crude oil through the Adriatic pipeline operated by JANAF. The contracts specify minimum contracted volumes, forward pricing formulas and include foreign currencies and inflation indices which do not qualify under IAS 39 as 'closely related' to natural gas transportation. INA does not use derivatives to manage foreign exchange risk. Options are not available on the local market. Although forwards are available, they are generally expensive due to the high interest rate spreads and, therefore, forward contracts are not used.

INA recognized a gain on derivatives of HRK 74 million in 2003, HRK 9 million in 2004 and HRK 5 million 2005. The value of embedded derivatives was HRK 275 million in 2003, HRK 284 million in 2004 and increased to HRK 289 million in 2005, primarily because of a contract with OMV.

Market Risks

Overview

The Company's activities expose it to a variety of market risks, including the effects of changes in currency exchange rates, refining margins, petrochemical margins, oil and natural gas prices, and interest rates. See "Risk Factors".

Commodity and oil price risk management

The commodity price risk related to crude oil prices and natural gas prices is a significant market risk to which INA Group is exposed. Crude oil prices are generally characterized by volatility and are influenced by factors outside INA Group's control, such as OPEC actions, political events and supply and demand fundamentals. Natural gas prices are closely linked to crude oil price fluctuations, although there is a delay between a change in crude oil prices and the impact on natural gas prices. In addition, INA Group is subject to risks stemming from REB and Russian natural gas supply. A related risk stems from fluctuations in the price of oil products, which are influenced, *inter alia*, by supply and demand factors, competition and location of refineries.

As INA is an integrated oil and gas company, it has elected not to hedge its particular commodity exposures.

Operational risk management

Operational risks relate to various aspects of INA Group's operations, including exploration and production activities, environmental obligations, political instability in countries in which it operates and other operational risks inherent in its normal business activities. The consequences of these risks may involves substantial capital and operating expenditure. See "Risk Factors". INA Group is in the process of enhancing its systems for monitoring and seeking to mitigate financial and operational risk through, for example, the implementation of an integrated SAP IT system. INA Group is examining all aspects of its environmental risk management systems, particularly following receipt of the Golder Report discussed above.

Foreign exchange risk management

INA Group's activities, in particular those of the Exploration & Production business segment and the Refining & Wholesale business segment, expose it to currency fluctuations, in particular the U.S. dollar relative to the Kuna. For example, INA Group purchases the majority of its crude oil typically under short-term arrangements in U.S. dollars at spot market prices, and imports approximately 41 per cent. of its total natural gas requirements from Russia, also pursuant to dollar denominated contracts. This exposure to the dollar is in part mitigated by the fact that, for the years ended 31 December 2003, 2004 and 2005, it is estimated that 30 per cent., 35 per cent. and 35 per cent. of INA Group's gross sales were denominated in, or at prices tied to, the U.S. dollar. Depreciation of the U.S. dollar against the Kuna has had and may in the future effect INA's results of operations since this will usually cause INA's costs to increase. However, it will also increase INA Group's domestic sales (by increasing its product prices through the pricing formula) and export sales (that are in foreign currencies) income. This will generate a partial balance of negative and positive effects on the overall result of INA Group. This partial hedge on domestic refined product prices sold by INA Group is effective, however, only if regulatory bodies do not decide to change or override through State Influence the pricing regulation.

INA Group's results of operations have fluctuated significantly as a result of changes in the relative value of the Kuna to the U.S. dollar. INA Group expects that these fluctuations will continue to impact its profit in the future.

Interest rate risk management

INA Group has long-term borrowings, most of which incur interest at variable interest rates. INA Group is considering arranging interest rate swaps (floating to fixed) in the future, especially if interest rates continue to rise. Currently, 70 per cent. of INA Group's total long-term debt is attributable to one floating rate facility.

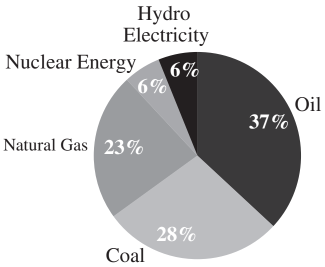
THE OIL AND GAS INDUSTRY

Global Oil and Gas Industry

INA Group operates within the oil and gas industry, which is global in nature. Crude oil is refined into products, such as petroleum gases, naphtha, gasoline, jet fuel, gas oil, base oil and heavy gas or fuel oil. In 2005, 37 per cent. of global energy needs were met utilizing refined oil products. Other main energy resources are coal and natural gas, which met 28 per cent. and 23 per cent. of global primary energy demand, respectively.

World Primary Energy Consumption by Fuel Type (2005)

Total: 76.7 billion barrels of oil equivalent



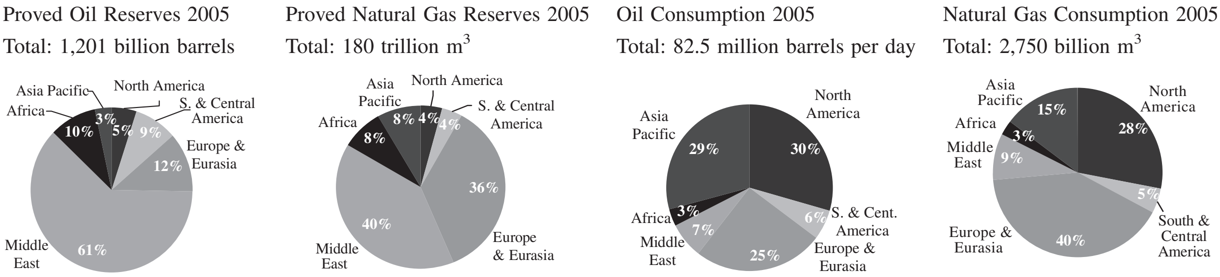
Source: BP Statistical Review of World Energy, June 2006

While crude oil is a global commodity and produced in all parts of the world, the vast majority of the world's hydrocarbon reserves are located in the Middle East. The Middle East dominates proved reserves of oil, with nearly two-thirds of the estimated 1,201 billion barrels of the world's reserves. Saudi Arabia (264 billion barrels), Iran (138 billion barrels) and Iraq (115 billion barrels) are the world's three largest holders of proven oil reserves.

Natural gas reserves are located in two principal regions around the world: the Middle East, mainly in Qatar and Iran, and the Russian Federation. Together, these three countries control almost two-thirds of the world's natural gas reserves. Natural gas is a more regional commodity than crude oil, largely because it is more difficult to transport over long distances.

The top consumers of oil and natural gas consist largely of developed nations, with strong demand growth coming from developing economies such as India and China. The chart below shows the proved reserves and consumption for crude oil and natural gas by region.

Oil and Gas Proved Reserves and Consumption



Source: BP Statistical Review of World Energy, June 2006

Prices for crude oil, natural gas and refined products are determined on the basis of global supply and demand fundamentals. However, the policies of the Organization of the Petroleum Exporting Countries ("OPEC") have a major influence on crude oil prices. OPEC sets production quotas for its member countries and hence affects the global supply of crude oil. OPEC members are Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, the United Arab Emirates and Venezuela. These 11 countries control 75.2 per cent. of the world's proved oil reserves and accounted for 41.7 per cent. of the global oil production in 2005. Political instabilities, weather and other natural phenomena also affect oil prices, as heating oil demand is weather-driven, and acts of war or natural catastrophes can cause supply disruptions.

The petroleum industry consists of four distinct segments: (i) exploration and production (also referred to as upstream operations), in which companies attempt to discover new hydrocarbon reserves and then extract them;

(ii) transportation (also referred to as midstream operations), where hydrocarbons are transported from production source to refining facilities; (iii) refining (also referred to as downstream operations), where feedstock (crude oil and other hydrocarbons) is converted into usable end products; and (iv) distribution and marketing, in which refined products are delivered to end customers. Many larger industry participants participate in all phases of the supply chain, whereas others limit their activity to select segments.

Global Oil Refining Industry

Introduction

The oil refining industry operates in a global business environment. Transportation of crude oil, other feedstock and end products is not difficult and can be justified economically. There is global demand for crude oil, other feedstock and refined petroleum products, as well as existing infrastructure in the form of oil and gas pipelines and terminals. Refining margins are the difference between the value of refined products produced from a barrel of crude oil and the cost of the barrel of crude oil. At a regional level, refining margins are mainly driven by capacity utilization rates. The three most important regional refining centers are the U.S. Gulf Coast ("USGC"), North-Western Europe ("NWE") (also referred to as the Rotterdam benchmark) and Singapore. Refining margins achieved in these regions serve as benchmarks for the industry. Although the refining margins in these regions can differ materially, depending on local conditions, they remain connected globally as operating costs are similar and the cost of transport is relatively low.

Crude oil qualities

Crude oil quality is measured in terms of density (light to heavy) and sulfur content (sweet to sour).

The density is classified by the American Petroleum Institute ("API") whose API gravity-measure is defined on the basis of density at a temperature of 15.6 degrees Centigrade. The higher the API gravity, the lighter the crude oil. Light crude oils are generally those with API gravity of 33 degrees and above, while heavy crude oils have API gravity of 29 degrees or less. A heavy crude oil is generally considered to be of "lower quality" as it contains a higher share of heavy hydrocarbons. Heavy crude oils yield a larger percentage of lower value oil products such as heavy gas and fuel oil when going through the basic distillation process. A light crude oil is more desirable as it produces a lighter end product yield and therefore a higher value refined product slate.

Oil with high sulfur content (sour crude oil) is more difficult to process and produce high quality products therefrom. Oil with low sulfur content (sweet crude oil) is easier to process and fewer processing units are required to reduce sulfur content in oil products in order to meet fuel quality standards. Sour crude oil is commonly defined as crude oil with sulfur content of greater than 0.5 per cent., while sweet crude oil has sulfur content of less than 0.5 per cent.

Below are API gravities and sulfur contents for some important benchmark crude oils:

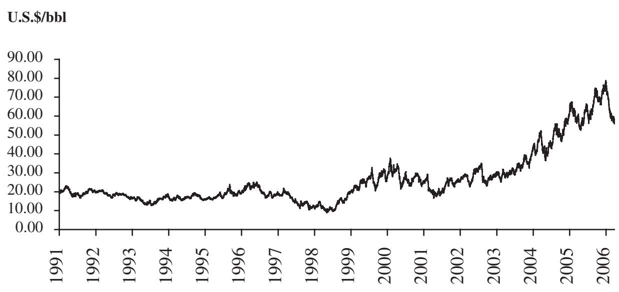
- Dated Brent is a light, sweet North Sea crude oil with an API gravity of approximately 38 and sulfur content of approximately 0.4 per cent. Most of the Dated Brent blend is refined in NWE, but significant volumes are also shipped to the United States and Mediterranean area. According to the International Petroleum Exchange, Dated Brent is used for the pricing of two-thirds of the world's internationally-traded crude oil supplies.

- REB, the Russian benchmark crude oil commonly known as Urals, is a mixture of several crude oil qualities transported for export and domestic Russian use via the Russian crude oil transportation system. REB is a medium density and sour crude oil with an API gravity of approximately 32 and sulfur content of approximately 1.2 per cent. The spot price of REB is quoted for Augusta, Italy, and Rotterdam, the Netherlands, the two primary delivery points at which the prices are quoted.

- West Texas Intermediate ("WTI"), the U.S. benchmark crude oil, is a light, sweet crude oil with an API gravity of approximately 40 and sulfur content of approximately 0.3 per cent. The spot price of WTI is reported at Cushing, Oklahoma.

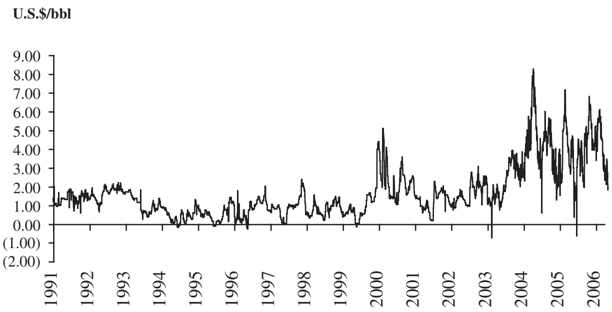
Presented below are price levels of historical Brent crude oil (a benchmark light North Sea crude oil) and historical Brent Urals differentials.

Historical Brent Price



Source: Bloomberg

Brent Urals Differential



Source: Bloomberg

Light sweet crude oils such as Brent and WTI tend to be more expensive than the heavier and/or more sour crude oils such as REB or crude oil produced in South America. The price discrepancy has become more pronounced in recent years, which is largely attributable to global supply of crude oils becoming increasingly heavy and sour. At the same time the demand for lighter products, requiring light sweet crude oil, has increased in many regions of the world. Refineries lacking conversion capacity to convert or de-sulfurize sour crude oil are thus forced to buy increasingly scarce sweet crude oil to produce the lighter products demanded by the market, or they are forced to upgrade their refineries.

Crude oil prices are volatile and driven by economic and political macrofactors. Global oil demand broadly moves in line with the economic growth cycles of the world's large economies. Global oil supply is driven by a variety of factors, including OPEC, which controls over 75 per cent. of global crude oil reserves and the level of oil production of its member states, and political instability and uncertainty, particularly in the Middle East, where over 60 per cent. of global crude oil reserves are located.

The last three years have seen the Brent price increase significantly. The average Brent price was U.S.$28.8/bbl in 2003, U.S.$38.3/bbl in 2004, U.S.$54.5/bbl in 2005, and U.S.$65.7/bbl in the first half of 2006. In August 2006, the Brent price reached an all time high of U.S.$78.7/bbl. However, oil prices have moderated recently. The average Brent price for October 2006 was U.S.$57.8/bbl. Current price levels result from a supply and demand imbalance which is mainly caused by three key factors: (i) strong oil demand growth in North America and the emerging economies of China and India; (ii) regulated supply by OPEC member states; and (iii) supply constraints resulting from continued political instability in the Middle East and other key producing regions, and a resulting risk premium on crude oil prices.

Refined petroleum products

Hydrocarbons are the basic element of the oil and gas industry. The large amount of energy stored in the unprocessed hydrocarbons must be converted to a utilizable form through the refining process.

The following is a brief description of petroleum products and their main applications.

Light distillates

Petroleum gases

Petroleum gases are the lightest products from the refining process. They consist primarily of methane, ethane, propane and butane. They are gases at room temperature, and their main uses include heating, cooking and use as intermediate material in the petrochemical manufacturing processes. Petroleum gases are often liquefied under pressure to create liquefied petroleum gases ("LPG") supplied by pipeline, in filled tanks or in large bottles.

Naphtha

Light, easily vaporized, clear liquid, which is principally used as a feedstock by the petrochemicals industry for the manufacturing of plastics, synthetic fibers, synthetic rubbers and other products.

Gasoline

Motor fuel that vaporizes at below the boiling point of water. Gasoline is rated by its octane number, which is an index of quality describing the fuel's ability to burn evenly and to resist detonation when burned in an engine.

Middle distillates

Jet fuel

Liquid fuel used for jet engines, or as a raw material for other products.

Gas oil

Liquid fuel used to make diesel fuel and home heating oil, as well as a raw material for other products.

Heavy distillates

Base oil

Liquid used to make motor oil, grease and other lubricants.

Heavy fuel oil

Liquid fuel used in marine vessels, power plants, commercial buildings and industrial facilities fuels.

Heavy residuals

Include heavy residuals after crude oil processing (such as vacuum residuals) used for heavy fuel oils blends, bitumen production and as a feedstock in the conversion process (coking, visbreaking).

Overview of the refining process

Crude oil contains hundreds of different types of hydrocarbons mixed together which require separation to be useful. Oil refining is the process whereby the hydrocarbons are separated into a wide variety of intermediate and final products. In general, there are four major refining steps that can be taken to separate crude oil into useful substances:

- physical separation of the various types of hydrocarbons through distillation;
- purification of intermediate products in pre-treatment units;
- chemical processing of the lower valued fractions into more desirable products; and
- treatment and mixing of intermediate products by removing unwanted elements and chemical compounds for blending into final end products.

Each step in the refining process is designed to maximize the value added to its inputs. Most simple refineries carry out only the first step (crude oil distillation), while more complex refineries also perform the other three steps. The following description outlines the refining process of a typical complex refinery.

Distillation

The atmospheric distillation unit is the first refinery unit to process raw crude oil. In the distillation process, crude oil is fractioned into intermediate products without altering the chemistry of the molecules. Crude oil is separated by boiling in the distillation units under high heat and recovered as hydrocarbon fractions. The lowest boiling fractions, including petroleum gases and virgin naphtha, vaporize and exit at the top of the distillation column. Medium boiling liquids (including gasoline and kerosene) and distillates such as diesel oil and heating oil vaporize at higher temperatures and are drawn from the middle of the distillation unit. Higher boiling liquids, also called atmospheric distillation residues, are not vaporized and are drawn from the bottom of the atmospheric distillation unit.

Purification

Various upgrading processes are used to purify the distillates and modify the hydrocarbon molecules to produce characteristics and properties suitable for final use. These pre-treatment processes can also lower the sulfur and nitrogen content and hence enhance the burning characteristics of the end product.

Chemical processing

The next step of the refining process is to chemically convert some of the resulting fractions from the distillation process into other, more desirable fractions. For example, longer hydrocarbon chains can be broken into shorter ones. There are three different methods for changing one fraction into another: (i) cracking, (ii) reformation and (iii) alteration. Below is a brief description of each method.

Cracking

Cracking is the process where large hydrocarbons are broken or cracked into smaller pieces using either heat (thermal) or catalysts (catalytic). In thermal cracking, the large hydrocarbons are exposed to high temperatures and possibly high pressures until they break apart. There are three common thermal cracking methodologies: steam, visbreaking and coking. Visbreaking is a process where the vacuum residue is converted to naphtha and diesel oils by use of high temperature without catalysts. Coking is a process where the residue of the atmospheric or vacuum distillation is exposed to high temperatures in chambers and the large molecules of hydrocarbon are broken into smaller molecules, with end products being gas, gasoline and diesel fuel (mainly), while petrol coke is obtained as by product. Catalytic cracking uses a catalyst to speed up the reaction. Fluid catalytic cracking uses a hot, fluid catalyst to crack hydrocarbons of vacuum gas oils into diesel oils and gasoline. Hydrocracking uses hydrogen gas and a catalyst at lower temperatures and higher pressures to crack vacuum gas oils into gasoline and diesel fuel.

Reformation

Reformation combines smaller hydrocarbons into larger ones. The most common reformation process is catalytic reforming which uses a catalyst to combine low weight naphtha into aromatics, which are used as feedstocks in petrochemical processes or as a high-octane component for blending motor gasoline. The reforming process produces significant amounts of hydrogen gas as a by-product, which can be further utilized in the hydrocracking process.

Alteration

In the alteration process, the molecular structure in various hydrocarbons is rearranged to make desired hydrocarbons. The major alteration processes are called alkylation and isomerization, which is basically the inverse of cracking. In the process, lighter weight compounds such as naphtha are mixed with catalysts, producing high octane hydrocarbons which can be used in gasoline blends.

Refinery configuration and complexity

The products produced by a refinery depend on the crude oil used as feedstock and the units installed at the refinery. Light and sweet crude oils are more expensive and generate greater yields of higher value refined petroleum products, such as gasoline, aviation fuels and diesel. Heavier and more sour crude oils are less expensive and generate greater yields of lower value petroleum products, such as fuel oils. The configuration of certain refineries, particularly in North America, is typically oriented towards the production of gasoline whereas the configuration of refineries in most other regions, in particular Europe, is typically oriented towards the production of middle distillates, such as diesel and aviation fuels. In addition, there are refineries that are configured towards certain other specialty products, such as base oils, naphthenics and bitumen.

Oil refineries can generally be divided into two principal categories: simple hydroskimming refineries and complex refineries. Simple hydroskimming refineries primarily carry out the distillation process while complex refineries carry out two additional functions, conversion of hydrocarbon fractions produced in the crude oil distillation process to other products and the treatment of intermediate products to create higher value-added products. Consequently, simple refineries produce lower value petroleum products than complex refineries for any given mix of crude oil feedstock.

The configuration of complex refineries is oriented either towards maximizing the production of gasoline (catalytic cracking) or middle distillates (hydrocracking), depending on market demand for the products. In addition, they use secondary processing capacities to upgrade vacuum residue. Refineries that are configured to have a high conversion and desulfurization capacity can achieve higher yields of higher value-added refined petroleum products by processing heavier and more sour crude oil qualities than refineries with lower conversion and desulfurization capacity.

Refinery complexity is a technical measure used as a guide to refinery efficiency and potential profitability. It is an important indicator of a refinery's relative competitiveness. The most common measures for complexity are the Solomon and Nelson complexity indices. A refinery with a complexity of 10.0 on the Nelson complexity index is considered 10 times more complex than basic crude oil distillation for the same amount of throughput. Refinery complexity thus reflects an oil refinery's ability to process feedstock, such as heavier and higher sulfur content crude oils, into higher value-added products. Generally, the higher the complexity and the more flexible the feedstock slate, the better positioned the refinery is to process the more cost effective crude oils at any point in time, resulting in incremental gross margin opportunities for the refinery. However, it is important to note that, just as higher complexity means higher added value and access to a higher gross margin, it also brings higher operating costs.

Refinery characteristics

The key criteria for evaluating the attractiveness of a particular refining asset include:

Size

Refining is capital intensive with economies of scale, with larger facilities typically capturing a higher cash margin than smaller facilities (for a given configuration). Crude oil typically accounts for 90 per cent. to 95 per cent. of the total costs of refining. Since other refining costs are relatively fixed, the goal of refineries is to maximize utilization rates, maximize yields of the higher value-added products, minimize feedstock costs and minimize operating expenses.

Complexity

A measure of a refinery's capability to convert low-value streams, such as fuel oil and residues, to higher-value fuels and other products, as discussed above.

Location

The attractiveness of a particular refinery location is influenced by its access to feedstock and the local refined product market structure which impacts the pricing environment. The location also determines the means of transportation for the feedstock and end products. Due to transportation costs, refineries located in coastal areas tend to have a competitive advantage over inland refineries. Correspondingly, operators of refineries that are located in areas with high product demand enjoy a competitive advantage over other suppliers given the lower transportation costs of end products.

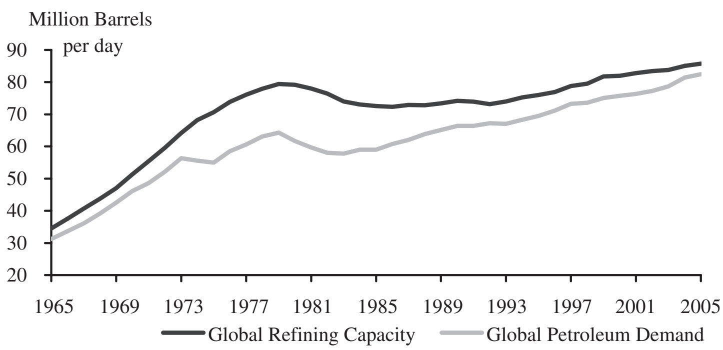
Integration

It is widely accepted that synergies can be achieved through integration with other relevant businesses, such as power, petrochemicals and marketing. Oil refineries can be operated as a part of integrated oil companies or as independent companies. The level of integration differs between companies, but ranges from oil majors that have large upstream, midstream and downstream operations as well as petrochemicals and power assets to smaller operators with smaller-scale upstream and refining and marketing assets. Many oil refiners, both integrated and independent, distribute their refined products through their own retail and wholesale marketing networks.

Supply and demand for petroleum products

In the 1970s, oil crises, combined with aggressive construction of refineries, produced industry overcapacity. During the 1980s and 1990s, a number of refining units were closed and construction of new refineries was limited. Although global refining capacity has increased due to upgrades, de-bottlenecking and modest expansion of existing units, demand has grown at a faster rate and largely eliminated overcapacity, as shown in the chart below.

Refining Capacity vs. Petroleum Demand



Source: BP Statistical Review of World Energy, June 2006

In recent years there has been an overall increase in demand for environmentally clean transportation fuels, a shift in demand from gasoline to diesel in Europe and a structural decline in demand for heavier products such as fuel oil due to environmental considerations and the increased use of natural gas. Global crude oil supply is becoming more heavy and more sour. Many industry observers expect these trends to continue.

Refineries require additional processing or conversion capabilities to convert heavy and sour crude oils into the light products demanded by the market. Absent such capacity, the processing of heavy and sour crude oils produces higher yields of heavier products and lower yields of light products. Unfortunately, many European refineries are not adequately equipped with such conversion capacity.

These product demand and crude oil supply trends combined with the lack of conversion capacity in Europe have resulted in an imbalance between the products demanded by European consumers and the products produced by European refiners. The imbalance is expected to worsen without substantial investments in conversion capacity. Such conversion capacity requires substantial capital and several years to plan and build.

Distribution and Marketing of Petroleum Products

There are three main channels of distributing and marketing fuel products to end-customers: direct sales in the wholesale market to major customers such as industrial clients, resellers, aviation, marine, and transportation companies; sale of fuel products to retail customers such as private motorists and spot sales in the cargo market.

The main profitability drivers for marketing operations include the location of petrol stations (especially rural versus urban areas), geographic coverage of the distribution network, efficiency of the logistics system, throughput per site and size and quality of the non-fuel offerings. The throughput per site and level of non-fuel sales ratios are often followed by industry observers. A high level of throughput, a low level of costs and offering other non-fuel services on the petrol stations are critical factors for the profitability of retail marketing companies. Customer loyalty programs, such as loyalty cards, and other service concepts affect the companies' ability to obtain and retain customers.

Petrol stations that are built and owned by a company to operate under its own brand are known as company-owned sites. Petrol stations owned by an independent dealer, which purchases supplies under contract from an oil company, and sells under the company brand, are known as dealer-owned. Company-owned sites may be operated by the oil company itself or leased to a dealer. In the case of company-owned and dealer-operated or dealer-owned and dealer-operated petrol stations, wholesale companies enter into long-term supply contracts with the dealers.

INA GROUP'S MARKET ENVIRONMENT

Overview

INA Group is one of the leading energy companies in the South Eastern European region, which INA Group considers to consist of the area south-east of Austria and Hungary and north of Greece and Turkey ("South Eastern Europe"). However, the substantial majority of INA Group's operations are based in, and the substantial majority of its revenues are generated in, Croatia. INA Group's strategic focus area ("Core Region") comprises Croatia, Macedonia, Bosnia and Herzegovina, Montenegro, Serbia, Slovenia and Albania as well as Southern Austria. In 2005, South Eastern Europe had a population of over 56 million. In May 2004, Hungary and Slovenia became members of the EU, while Bulgaria and Romania are scheduled for accession in 2007. Croatia became an official candidate country for the EU in June 2004, and in October 2005, the EU decided to officially commence accession talks, which are ongoing. Macedonia applied to become an official candidate in March 2004.

The countries of South Eastern Europe are strategically located between Western Europe and the CIS region and the Middle East, benefiting from increased trade and transport of goods between such regions. The following map illustrates the area comprising South Eastern Europe as well as INA Group's Core Region therein.

INA Group's Strategic Focus Area ("Core Region")

Other South East European Countries ("South Eastern Europe")

From 2002 to 2005, the countries of South Eastern Europe displayed strong economic growth, outpacing the mature EU-15 countries. GDP growth rates averaged 3.5 per cent. per annum, as compared with EU-15 growth of 1.2 per cent. per annum. This superior growth pattern is expected to continue in the years to come as the economies of the new EU countries and accession aspirants converge with the more mature markets of the EU-15. The information in the following table provides an overview of selected macroeconomic data.

	Area	Population 2005	GDP 2005 at purchase power parity	Real GDP 2002-2005 average growth rate	Real GDP 2006-2008 projected growth rate	GDP per capita 2005 at purchase power parity	Passenger car density 2005
	('000 km^2)	(in million)	(in EUR billion)	(%)	(%)	(in EUR)	(cars/100 people)
Albania	28.8	3.1	12	4.2	—(3)	3,896	6.6
Bosnia and Herzegovina	51.2	4.4	22	3.9	—(3)	4,928	25.5
Bulgaria	111.0	7.8	48	3.9	3.4	6,193	31.4
Croatia	56.5(1)	4.4(1)	38	3.3	—(3)	8,488	30.5
Macedonia	25.7	2.0	11	2.7	—(3)	5,482	15.7
Romania	238.4	21.7	130	4.4	3.9	5,988	14.8
Serbia and Montenegro(2)	102.2	10.4	34	3.5	—(3)	3,297	13.4
Slovenia	20.3	2.0	31	2.7	3.0	15,686	46.2
South Eastern Europe	634.1	55.9	326	3.6	3.4	6,745	23.0
EU-15	3,200.0	378.2	9,604	1.2	1.5	20,976	52.1

Source: Economist Intelligence Unit

Notes:

(1) Croatian Central Bureau of Statistics.

(2) No separate statistical data is available for Serbia and Montenegro.

(3) Data not available.

Continued GDP growth in the emerging economies of South Eastern Europe is a key driver underlying the increasing energy and oil products demand in the region. The density of passenger cars, which is significantly lower than in the EU-15, is expected to continue to grow rapidly as per capita income and purchasing power increase. In Croatia, for example, the number of registered passenger vehicles per 100 people grew from 30.1 to 30.5 from 2004 to 2005. The development of the petrol station network is expected to follow this trend.

Natural gas demand has so far mainly been driven by the industrial sector, as natural gas infrastructure has not yet reached a degree of regional penetration to warrant widespread use in the residential and commercial sectors. With further development of the natural gas infrastructure, the use of natural gas is expected to satisfy a larger share of regional energy demand. A key driver of natural gas demand is expected to come from the power generation sector, as modern CCGT power plants are expected to be built to meet increasing energy demand.

The South East European Oil and Gas Industry

Most oil and gas companies operating in South Eastern Europe are current or former national oil companies. South Eastern Europe's remaining proved reserve base comprises primarily relatively mature oil and natural gas fields, many of which are onshore. Due to South Eastern Europe's low levels of oil and natural gas production, most countries are net importers of crude oil and natural gas. The following table provides certain information regarding the upstream production of the major producers of oil and natural gas in South Eastern Europe for the year ended 31 December 2005.

Key industry participants	Regional production(1)	Total production	Regional production as % of total production
	(Mboe/d)		(%)
INA Group	50	54	92.9
MOL(2)	—(5)	101	—(5)
OMV(3)	217	338	64.2
Hellenic Petroleum(4)	—(5)	—(5)	—(5)
Lukoil	—(6)	1,942	—(6)
Petrol(4)	—(5)	—(5)	—(5)
NIS(6)	18	20	92.8

Notes:

(1) Within South Eastern Europe.

(2) MOL, including Slovnaft a.s.

(3) Including Petrom.

(4) Companies with no upstream activities or no current production.

(5) Not applicable.

(6) Data not available.

South Eastern Europe's location between the Adriatic Sea and the Black Sea allows for easy access to crude oil imports from Western Europe, Eastern Europe, the U.S., the Middle East and North Africa, and exports to most major product markets in the Mediterranean and Atlantic Basin regions. Imported crude oil and feedstock in the region are mainly sourced from Russia and other countries of the CIS region. Additional import routes include overland pipelines from the Mediterranean coast for North and West African and Middle Eastern crude oils. There are preliminary plans for an additional crude oil pipeline to be built from Constanta on the Black Sea Coast to Trieste on the Adriatic Coast, which could supply crude oil to refineries in South Eastern Europe.

South Eastern Europe is home to 12 refineries with aggregate crude oil processing capacity of approximately 46 MMt. Six of these refineries are located in INA Group's Core Region.

Croatia, Hungary, Serbia and Romania are the only net exporters of refined products in South Eastern Europe. Like other European markets, the demand for refined products is tending towards more environmentally cleaner transportation fuels and away from heavier products such as fuel oil. Many of the refineries in South Eastern Europe are not currently configured to efficiently produce the products demanded by the market and substantial investment in refinery upgrades is required to adjust to changes in product demand.

Larger industry participants who have a presence throughout the entire South Eastern Europe region include MOL, OMV, Lukoil and Hellenic Petroleum. Regional participants such as INA Group, NIS and Petrol generally have a leading domestic refining and/or marketing position and smaller scale foreign marketing operations. Major international oil companies do not have a significant position in the region.

The following table provides certain information regarding the downstream production and retail operations of the main producers of oil and natural gas in South Eastern Europe as of and for the year ended 31 December 2005.

Key industry participants	Refineries	Net capacity	Net capacity	Total retail sales volume 2005	Petrol stations in 2005	Total oil product sales 2005
	(no. of)	(Mbbl/d)(1)	(MMt/y)(1)	(MMt)	(no. of)	(MMt)
INA Group(2)	2	180	9.0	1.10	475	4.85
MOL(3)	—(6)	—(6)	14.2(6)	—(5)	149	—(5)
OMV(4)	2	160	8.0	—(5)	966	—(5)
Hellenic Petroleum	1	50	2.5	—(5)	85	—(5)
Lukoil	2	280	14	2.4	277(7)	17.8
Petrol	—(6)	—(6)	—(6)	0.9	348	1.9
NIS	2	146	7.3	—(5)	497	—(5)

Notes:

(1) Within South Eastern Europe.

(2) Excluding recent acquisitions.

(3) Including Slovnaft a.s.

(4) Including Petrom.

(5) Data not available.

(6) Not applicable.

(7) 2003 data.

The Croatian Energy Market

Overview

The Croatian energy market is fully integrated, comprising all key segments of the energy and power value chain. Activities range from the exploration and production, transport and storage of crude oil and natural gas to the processing, distribution and marketing of oil products and the marketing and distribution of natural gas to new industrial customers. In 2005, Croatia was the largest producer of oil and natural gas and the largest refiner of crude oil in the Core Region.

Driven by the efforts of Croatia to join the EU, the Croatian energy sector has undergone major regulatory changes in recent years, which are best characterized as restructuring, liberalization and privatization. For more detail on Croatia's regulatory framework, see "Regulation — Croatia — Industry regulation".

Oil and gas industry structure

Like most other countries in the Region, Croatia is a net importer of crude oil and natural gas, importing 82 per cent. and 41 per cent., respectively, of its crude oil and natural gas requirements in 2005. However, due to Croatia's sizable natural gas reserves, Croatia is less dependent on imports than other countries in South Eastern Europe. Croatia is a net exporter of refined products.

INA Group is currently the sole concession holder for exploration and production of oil and gas in Croatia and owns and operates the country's two fuel refineries. The marketing segment is more competitive with regional industry participants and local entrepreneurs competing with INA Group for market share.

Exploration and production

Croatia has considerable domestic oil and natural gas resources. In 2005, Croatia had net proved and probable oil and natural gas reserves of 386 MMboe, of which 32 per cent. was oil. INA Group is currently the only company engaged in oil and gas exploration and production activities onshore Croatia. Historically, INA Group had an oil and gas production monopoly, with exclusive exploration rights both onshore and offshore Croatia, although the Mining Law of 1991, as amended, allows any company registered in Croatia to apply for exploration and production (exploitation) licenses. ENI Croatia B.V., a wholly-owned subsidiary of the Italian integrated oil and gas company ENI S.p.A. (ENI S.p.A. and its subsidiaries, "ENI"), and Edison Gas S.p.A. ("Edison"), a wholly-owned subsidiary of Edison S.p.A. of Italy, are engaged in exploration and production activities offshore Croatia, in partnership with INA Group, which holds the relevant licenses.

Despite Croatia's domestic reserves, the country imports the majority of its oil requirements (around 81 per cent.), and a substantial portion of its natural gas requirements, mainly from the CIS region.

Transportation and storage

Crude oil is transported via the Adriatic pipeline system, which delivers crude oil to refineries in Central and South Eastern Europe. The Adriatic pipeline system extends over 759 km, of which 610 km run through Croatian territory, with the remaining portion reaching into Slovenia, Hungary, Montenegro and Serbia. In Croatia, it is operated by Jadranski naftovod d.d. ("JANAF"), the shareholders of which include INA (16.0 per cent.), the Croatian Pension Insurance Fund (50.5 per cent.), Croatia (21.7 per cent.) and the Deposit Insurance and Bank Rehabilitation Agency (5.8 per cent.).

Croatia has crude oil storage facilities in Omišalj and Virje which are operated by JANAF. INA Group's storage facilities for crude oil and other products, located in Rijeka, Sisak and other locations in Croatia, have a combined capacity of 2.5 million m^3 (15.7 MMbbl). Croatia's offshore natural gas fields are linked by pipeline to a new terminal in Pula which is expected to be operational late in the fourth quarter of 2006.

The transport of natural gas in Croatia is conducted by Plinacro, which is Croatia's state-owned gas transmission operator. A network of 1,657 km of high pressure gas pipelines links the main cities in northern Croatia with onshore natural gas fields throughout Croatia. The gas network also links the main underground storage facility at Okoli and the import pipeline from Gazprom which enters Croatia at the Slovenian border. Croatia's natural gas storage facilities consist of an underground facility near Sisak at Okoli which has a total capacity of 550 million m^3 (19.4 Bcf) and peak daily output of 5.0 million m^3 (176.6 MMcf). Certain shareholders are considering the possibility of disposing of this facility. See "Risk Factors — Government regulation and intervention affect INA Group's Business".

The proposed Nabucco pipeline project would allow transportation of natural gas via a 3,400 km pipeline from producers in the Middle East and Caspian region to Western Europe. Once completed, the Nabucco pipeline could transport natural gas from Turkey to Austria, via Bulgaria, Romania and Hungary, thereby enabling Croatia to access alternative natural gas supplies. It is expected that the pipeline's transport capacity will reach up to 1,059 Bcf per year, with start-up expected in 2011.

Another gas infrastructure project currently under evaluation is an LNG import terminal on the Northern Adriatic coast of Croatia, to be constructed by a consortium of various European energy companies with the participation of, among others, INA. Natural gas would be imported for distribution through existing European pipeline systems to which the terminal is expected to be linked.

Refining

INA Group owns and operates the country's only two fuel refineries, which have combined crude oil distillation unit ("CDU") capacity of 8.5 MMt/y and total throughput of 5.0 MMt/y in 2005. INA Group also operates two lubricant, motor oil and other products plants, which have combined capacity of 0.5 MMt/y.

Retail marketing

As of 31 December 2005, Croatia had a nationwide fuel marketing network of 710 petrol stations. As the market leader in the retail segment, INA Group operated 428 petrol stations in Croatia, representing a market share of approximately 60 per cent. as of 31 December 2005. Other fuel retailers with significant operations include OMV, Euro Petrol, Tifon and Petrol. An additional 160 small retailers operate another 182 petrol stations. As of 30 June 2006, INA Group had 427 petrol stations.

There is growing competition in the retail market as other market participants have built up their service station portfolios. The growth in competitor networks partly reflects the decline in import tariffs.

The following table provides certain information regarding the Croatian retail operations of major fuel retailers in Croatia as of 31 December 2003, 2004 and 2005.

	As of 31 December					
	2003		2004		2005	
	No. of petrol stations	Market share (%)	No. of petrol stations	Market share (%)	No. of petrol stations	Market share (%)
INA Group	421	63.5	426	62.2	428	60.3
OMV	30	4.5	37	5.4	41	5.8
Petrol	15	2.3	18	2.6	18	2.5
Euro Petrol	22	3.3	22	3.2	22	3.1
Tifon	9	1.4	18	2.6	19	2.7
Others	166	25	164	23.9	182	25.6
Total	663	100.0	685	100.0	710	100.0

Source: INA estimates

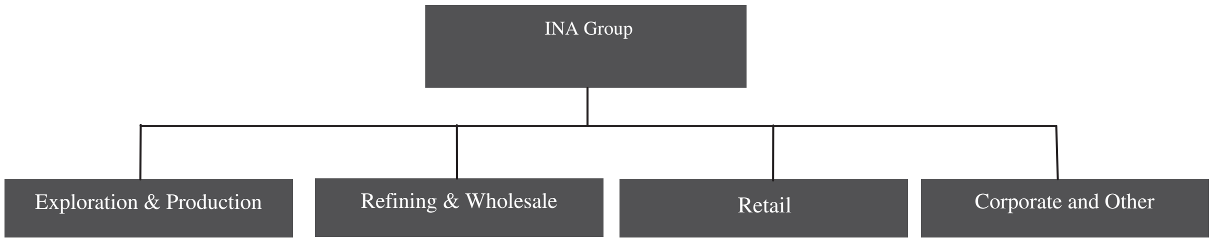
BUSINESS

Overview

INA and its consolidated subsidiaries comprise one of the largest vertically integrated oil and gas corporate groups in South Eastern Europe as measured by total proved reserves and production, refining capacity and volume of oil products sold. INA is also one of the largest industrial companies in its Core Region as measured by revenues. For the year ended 31 December 2005, INA Group generated revenues of HRK 21,070 million and profit from operations of HRK 1,410 million. For the six months ended 30 June 2006, INA Group generated revenues of HRK 10,782 million and profit from operations of HRK 668 million.

INA Group is engaged in three principal business activities: exploration and production of crude oil and natural gas, refining and wholesale marketing, and the operation of, and retail sales at, petrol stations. INA Group believes growing demand for energy in Croatia and throughout South Eastern Europe, its portfolio of oil and natural gas exploration, development and production projects, and its refinery modernization, retail network restructuring and cost saving programs will enable it to achieve sustained growth and improved profitability.

The following table provides an overview of the principal components of INA Group's business segments.



HRK 1,562 MM[1]
- Proved and probable reserves of 386 MMboe (68 per cent. gas)
- Focus regions:
  - — Onshore Croatia
  - — Offshore Croatia
  - — Middle East (Syria)
  - — North and West Africa
- Sale/import of natural gas
- Integrated oil services

HRK 399 MM[1]
- Two fuel refineries
  - — Rijeka (4.5 MMt)
  - — Sisak (4.0 MMt)
- Marketer of 4.9 MMt of fuel products in Croatia and South East Europe
- Lubricants business
- LPG business
- Operator of certain petrol stations selling primarily to wholesale customers:[1]
  - — Croatia (18)
  - — Bosnia and Herzegovina (41)
  - — Slovenia (6)

HRK 65 MM[1]
- Operator of 409 Croatian petrol stations (June 2006)
- 2H 2006 acquisition of Energopetrol[2], adding 65 stations in Bosnia and Herzegovina

HRK (616) MM[1]
- Maintenance services business
- Safety and security services business
- Other support services

Notes:

(1) Profit/(loss) from operations for the year ended 31 December 2005 as extracted from the Audited Financial Statements.

(2) In addition to the 409 petrol stations included in the Retail business segment.

(3) This transaction has not yet completed as the parties are awaiting the approval of the competition authorities in Bosnia and Herzegovina.

- The **Exploration & Production** business segment engages in the exploration, development and production of natural gas, crude oil and natural gas condensates onshore and offshore Croatia and in certain other countries, in the Middle East and Africa. The business segment also imports natural gas from Russia which it sells, together with domestically-produced natural gas, to certain commercial customers and distributors in Croatia.

- The **Refining & Wholesale** business segment refines crude oil and other feedstock into petroleum products. Products produced by INA's refineries, as well as imported refined products, are distributed to the Retail business segment and to industrial and wholesale customers in Croatia and in other Central and South Eastern European countries such as Bosnia and Herzegovina, Slovenia, Montenegro, Macedonia and Serbia. The Refining & Wholesale business segment engages in both Wholesale and Retail marketing activities through its subsidiaries in Bosnia and Herzegovina and Slovenia. These products are also sold on the Mediterranean spot markets. This business segment also includes the Maziva Rijeka Lubricants Plant and the Maziva Zagreb Blending and Packaging Facility.

- The **Retail** business segment distributes and markets both motor fuels and non-oil products to retail consumers, in Croatia. All of the Retail business segment's petrol stations include shops offering a variety of non-fuel products and services.

In addition to the three business segments described above, INA Group's business includes a fourth business segment, "Corporate and Other".

"Corporate" refers to Corporate Functions, a cost center that provides support services, including providing financing to the other business segments within INA Group. At the INA level, Corporate Functions comprises four sub-functions that are each headed by a member of the Management Board. Each of these four sub-functions operates as a separate department.

Historically, INA has been managed on a divisional basis, with its subsidiaries operating on a more stand-alone basis than would be typical in a fully-integrated group, although INA is currently putting in place a more centralized system of control. For the purposes of this prospectus, the business of those subsidiaries that carry on business similar to that of an INA business segment have been aggregated with the respective business segment.

"Other" therefore refers, for the purposes of this prospectus, to any INA Group activities which do not fall into the three primary business segments described above, including, for example, the maintenance engineering activities which are performed by STSI, which provides support to INA's three primary business segments. In addition, for historical reasons, some of INA's subsidiaries are engaged in a number of activities that are not part of INA Group's core operations, e.g., car rental, hotels and tourism. These activities are not material to INA Group results.

History

INA was founded on 1 January 1964 through the merger of the activities of Naftaplin, a company involved in oil and natural gas exploration and production, and the refineries of Rijeka and Sisak. By the end of the 1960s, INA had expanded to include the Zagreb refinery, domestic trade operations of Trgovina, the OKI and DINA organic petrochemical operations and the Kutina fertilizer plant. In 1974, INA was transformed into a so-called "complex organization of associated work" or "s.o.u.r", a step which involved the formation of a number of separate companies. This structure was maintained until 1990, when INA became a state-owned company.

On 3 July 1993, INA was transformed into a joint stock company (or "d.d.").

On 31 December 1996, INA signed an agreement with the State Deposit Insurance and Bank Rehabilitation Agency pursuant to which INA transferred to the Agency the majority of its interest in petrochemicals, fertilizers, tourism and banking businesses, in consideration for the assumption by the agency of certain debt and interest liabilities owned by INA.

Effective 11 March 2002, INA sold its subsidiary Plinacro and a 21.4 per cent. interest in JANAF d.d., the company that owns and operates the Adriatic pipeline system, to Croatia in return for the assumption by Croatia of HRK 1,438 million (U.S.$172 million) of INA's long-term bank debt. INA still retains a 16 per cent. interest in JANAF.

On 19 March 2002, the Croatian Parliament passed the Law on Privatization of INA. See "Regulation — Croatia — Law on Privatization of INA". Pursuant to the Law on Privatization of INA, in 2002, Croatia launched an auction process for the sale of 25 per cent. plus one share of INA to a strategic investor.

Strategic relationship with MOL

On 10 November 2003, Croatia completed the sale of 25 per cent. plus one share of the share capital of INA to MOL for U.S.$505 million. See "Principal and Selling Shareholders and Related Party Transactions". MOL, based in Hungary, is one of the largest integrated oil and natural gas companies in Central Europe. Excluding INA, as of 31 December 2005, MOL had 290 MMboe of proved oil and natural gas reserves, and ownership interests in two refineries in Hungary and Slovakia with combined capacity of 279 Mbbl/d, sold 11.4 MMt of refined products through its wholesale and retail distribution network, sold natural gas, and produced olefin and polyolefins. As part of its purchase of 25 per cent. plus one share from Croatia, MOL obtained the right to nominate two of the seven Management Board members, one of which is the Chief Financial Officer, and to appoint two of the seven Supervisory Board members. See "Management — Supervisory Board" and "Management — Management Board". Its nominees also occupy two positions within the Corporate Functions Unit of INA Group.

As part of the agreement between MOL and Croatia, MOL has committed to not competing with INA in Croatia in refining, wholesale and retail business segment activities, and has agreed to cooperate with INA in the development of retail activities in Bosnia and Herzegovina, Serbia, Slovenia, Montenegro, Kosovo and Albania. See "Principal and Selling Shareholders and Related Party Transactions — Description of Shareholders' Agreement".

Key areas of current cooperation between INA Group and MOL include the development and implementation of a full modernization program at both of INA's refineries that draws on MOL's experience in modernizing its own refineries, the joint exploration of the Ferdinandovac and Vizvar fields in the area along the border of Hungary and Croatia, and the joint acquisition of Energopetrol (described below). At the beginning of 2005, INA Group launched a joint project with MOL for the acceptance of each other's fleet cards on their petrol stations, and MOL is also providing expertise to INA Group to assist in its implementation of the new SAP-based integrated IT system. See also "Principal and Selling Shareholders and Related Party Transactions — Description of Cooperation Agreement".

Recent developments

In September 2006, a MOL/INA consortium (50 per cent. INA and 50 per cent. MOL) signed a Recapitalization Agreement with the Government of Bosnia and Herzegovina and Energopetrol for the acquisition of a 67 per cent. interest in Energopetrol, a company which engages in the marketing of refined products in the Federation of Bosnia and Herzegovina, where it operates 65 petrol stations. See "Business — Strategy — Expand and modernize retail network". INA expects Energopetrol to form no more than 1.2 or 2.7 per cent. of its business, on the basis of INA and Energopetrol's relative assets or sales revenues, respectively as of, and for the period ended, 31 December 2005. This transaction has not yet completed as the parties are awaiting the approval of the competition authorities in Bosnia and Herzegovina.

INA is currently negotiating a settlement agreement on the restitution of property with the Government of Republika Srpska in Bosnia and Herzegovina regarding Krajina Petrol, which will involve INA taking a controlling interest in 14 petrol stations formerly owned by INA in Bosnia and Herzegovina, i.e., Republika Srpska. The results of INA Group's investment in Energopetrol are expected to be reflected in the results of the Refining & Wholesale business segment in the future.

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

Competitive Strengths

A leading oil and gas company in the attractive South Eastern European market

INA is one of the largest vertically integrated oil and gas companies in South Eastern Europe as measured by total proved reserves and production, refining capacity and volume of oil products sold. INA Group estimates that its market share of wholesale oil products sales for the year ended 31 December 2005 was 80 per cent. in Croatia, 60 per cent. in Bosnia and Herzegovina. and 5 per cent. in Slovenia.

INA Group is well positioned to benefit from the strong expected economic growth and consequent demand growth for refined oil products and natural gas in Croatia and the surrounding region. GDP growth in Croatia and the economies of South Eastern Europe has grown at rates of, on average, 3.3 to 3.5 per cent. per year, respectively, over the three-year period ended 31 December 2005, versus an average GDP growth rate of 1.2 per cent. over the same period for the EU-15 region. Robust growth is expected to continue in the future as the economies of Croatia and other countries in INA Group's Core Region and throughout South Eastern Europe are integrated into the EU.

INA Group's large reserve base, market-leading downstream position in Croatia and overall critical mass in the center of South Eastern Europe enables it to achieve efficiencies in supply and distribution, establishes it as a preferred supplier of products to industrial customers operating throughout Croatia and neighboring countries, and has allowed it to build a well-recognized brand.

Focused exploration and production portfolio with well defined development potential

The majority of INA Group's upstream exploration and production portfolio is currently focused on onshore Croatia, with a growing presence in offshore Croatia, Syria and Africa. INA Group's exploration and production activities outside Croatia are focused in countries with long-standing economic relationships with Croatia and/or where opportunities are well suited to its size and technical strengths. INA's onshore assets in Croatia, although mature, offer opportunities to improve recovery from existing fields through application of advanced recovery technologies. INA Group's proved and proved plus probable reserve replacement rates have averaged 134 per cent. and 342 per cent., respectively, over the three-year period ended 31 December 2005. INA Group expects its development projects in offshore Croatia and Syria, and its exploration activities both in Croatia and selected other countries, to be principal sources of organic growth in the next few years.

Competitively positioned refineries and extensive logistics infrastructure

Both of INA's refineries are well positioned from a supply of raw materials and marketing perspective. The Rijeka refinery on the Adriatic coast is ideally located to access multiple sources of crude oil and provide exports to neighboring countries in South Eastern Europe that are experiencing rapid demand growth as well as other Mediterranean markets. In addition, the Rijeka refinery's configuration allows it to process a high percentage of high sulfur crude oil.

The Sisak refinery, situated inland, is well positioned to supply the high demand centers in Northern Croatia, as well as the neighboring markets of Slovenia, Bosnia and Herzegovina and parts of Serbia. Sisak also has access to multiple sources of supply via the Adriatic and Družba pipelines, as well as to INA's own production.

INA's refineries are supported by an extensive logistics infrastructure, including five major storage depots and a fleet of rail tank cars and road tankers, which INA Group believes allow it to distribute its products to customers more efficiently than its competitors.

Premier domestic retail marketing network with a growing regional presence

INA Group is the clear market leader in the retail fuel segment in Croatia, and is increasing its presence in neighboring countries. As of 30 June 2006, INA operated 427 petrol stations in Croatia and, according to INA Group data, and the Croatian Energy Institute "Hrvoje Požar", had a market share in Croatia of 60.3 per cent. based on its number of petrol stations as of 31 December 2005 and 64.1 per cent. based on fuel volumes sold for the year ended 31 December 2005. INA Group operated an additional 41 petrol stations in Bosnia and Herzegovina and six petrol stations in Slovenia as of 30 June 2006. In September 2006, a MOL/INA consortium, with equal shares, signed a Recapitalization Agreement with the Government of Bosnia and Herzegovina and Energopetrol for the acquisition of a 67 per cent. interest in Energopetrol, an operator of 65 petrol stations in Bosnia and Herzegovina. See "— Recent Developments". This transaction has not yet closed, as the parties are awaiting the approval of the competition authorities in Bosnia and Herzegovina.

In recent years, INA Group has invested significant resources in the modernization of its retail network. Today, a large number of INA Group's sites offer convenience stores and other non-fuel services such as car-wash facilities and cafes. INA Group has grown its non-fuel sales by approximately 8 per cent. per annum since 2003. INA Group's nationwide retail network and its strong wholesale business and developing retail networks in neighboring countries have created significant brand awareness.

Strategic shareholder provides technical and managerial expertise

MOL has made significant contributions to the success of INA Group's business. MOL has helped to develop or enhance a number of INA Group's strategic initiatives, including the refinery modernization and a major cost savings initiative, and has helped establish organizational best practices in a variety of areas, including procurement, supply chain management, insurance and HSE. MOL has helped in identifying and providing experts to assist with the implementation of an SAP-based integrated information technology system. INA Group expects MOL to continue to contribute to the success of its business going forward.

Strategy

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

The strategic repositioning of INA Group began in 2000 in preparation for the first stage of INA's privatization in 2003. The repositioning has included key growth and improvement initiatives in all segments of INA Group and at the corporate level, as well as the disposition of non-core assets. The repositioning and development of a new strategy has included the retention of a number of industry consultants including ABB Lummus (refining modernization), Roland Berger Strategy Consultants (retail restructuring and logistics optimization) and McKinsey & Co. (overall cost savings and efficiency improvements).

Specific elements of INA Group's current strategy include the following:

Grow reserves and production

INA Group plans to grow reserves and production through the completion of its existing development projects, further exploration of existing properties and the acquisition of new concessions for exploration. Development projects, which INA Group expects to be its principal source of production growth, are underway in onshore Croatia (Međimurje), offshore Croatia (North Adriatic Project) and Syria (Hayan). In addition, EOR projects are planned to be undertaken at INA's Žutica and Ivanić fields in onshore Croatia in 2007. INA Group estimates its oil and natural gas production will grow by a CAGR of approximately 10 per cent through 2009 principally by completing its existing development projects.

Recent discoveries in offshore Croatia and Syria are also expected to add to growth. INA Group plans to pursue an active exploration program. INA Group has identified approximately 35 prospects and plans to drill seven exploration wells on its existing properties in 2007. In addition, INA Group is seeking to acquire 10 per cent. to 50 per cent. interests in three to five new concessions in its existing focus areas of the Middle East and Africa, as well as possibly in other countries, including the CIS, by 2009.

Upgrade and increase capacity utilization of refineries

INA is in the early stages of implementing a significant modernization and expansion program at its two refineries, which is aimed at achieving improved overall efficiency and profitability and compliance with current EU environmental emission standards. INA Group plans to invest approximately U.S.$1.1 billion between 2006 and 2011 at its Rijeka and Sisak refineries.

Key projects planned at the Rijeka refinery include the construction of a mild hydrocracking and hydro-desulfurization unit, which is expected to be onstream in 2009 and will enable the refinery to produce substantially all its motor fuels to EURO V specifications. A residue upgrading unit is planned to be onstream by 2011 and will allow INA Group to increase Rijeka's crude oil throughput to 4.5 MMt/y, increase production of Eurograde fuels and increase production of low-margin fuel oil produced.

The modernization of the Sisak refinery will include the construction of various desulfurization units which are expected to be onstream by 2008 and which will enable the refinery to produce gasoline to EURO V specifications. A revamp of the existing coker unit is planned to be completed by 2010 and the construction of a new mild hydrocracking unit is planned to be completed by 2011. These projects will increase Sisak's crude oil throughput to 3.2 MMt/y and ensure compliance with EURO V fuel quality requirements.

Basic design and front-end engineering design ("FEED") has been completed and a number of units at the Sisak facility have been contracted and a number of units at the Rijeka refinery are expected to be under contract before the end of 2006. Producing higher value products that meet EU specifications should enable it to meet all the demand for such products in the retail markets where it operates and facilitate the expansion of INA Group's wholesale export business and substantially improve its profitability.

Optimize logistics network

In 2005 and 2006, INA Group, with the assistance of Roland Berger Strategy Consultants, reviewed its storage and logistics operations and identified a number of improvement opportunities which INA Group will pursue. Such opportunities include rationalization of the terminal and warehouse network, outsourcing of road transport, terminal automation, organizational restructuring and introduction of performance measures. INA Group is targeting savings/improvement from these initiatives of at least HRK 170 million from 2006 to 2008, with further improvements expected thereafter.

INA Group has also identified a potentially significant business opportunity to act as the major provider of warehouse facilities and logistical services to the Croatian Agency for Mandatory Reserves of Oil and Oil Derivatives, pursuant to the new mandatory reserves requirements.

Expand and modernize retail network

INA Group's retail investment strategy is focused on three elements: the restructuring and upgrading of its existing network, the construction of greenfield sites in Croatia and neighboring markets, and selective acquisitions.

With the assistance of Roland Berger Strategy Consultants, INA Group has identified and plans to implement a number of restructuring initiatives, including the segmentation of its network into premium company-owned and company-operated petrol stations and standard company-owned franchise operated sites. Premium sites will be those with minimum annual motor fuel sales of 4 million liters, minimum annual non-fuel sales of HRK 1 million and a minimum shop space of $60m^2$. INA Group currently has 40 premium sites and has identified 100 additional sites to be converted to premium sites, based on current motor fuel sales. Other restructuring initiatives include the improvement of its product offering and the optimization of on-site and off-site costs.

INA Group also plans to selectively construct and acquire new sites in Croatia and neighboring countries, particularly in urban areas and along motorways. In Croatia, seven premium sites are currently under development and, in 2007, an additional four new premium sites will be developed. In September 2006, INA and MOL concluded a Recapitalization Agreement with the purpose of acquiring a 67 per cent. interest in the company Energopetrol, an operator of 65 petrol stations in Bosnia and Herzegovina. This transaction has not yet completed as the parties are awaiting the approval of the competition authorities in Bosnia and Herzegovina. INA Group is currently in negotiations with respect to a claim for restitution of assets to gain control of Krajinapetrol and its 14 petrol stations in the Republika Srpska, Bosnia and Herzegovina.

Implement cost saving and efficiency programs

INA Group, with the help of McKinsey & Co., has identified potential cost-saving and efficiency opportunities across its business units, and is currently implementing a comprehensive program ("OptINA") to realize this savings potential. The main areas identified for savings include, *inter alia*, a reduction of hydrocarbon consumption and losses through, for example, improved heater efficiencies and installation of waste heat boilers, a procurement optimization project to optimize purchasing of energy, car rentals, office supplies, travel and telecommunications, and a maintenance rationalization project aimed at reducing sub-contractor spending across all INA Group's business segments and improving work scheduling and monthly budgeting monitoring.

Based on the analysis completed to date, INA Group is targeting total annual savings of up to approximately HRK 750 million by the end of 2008, with HRK 147 million targeted for 2006. INA has implemented a new SAP-based integrated information technology system which will improve overall efficiency and is continuing to pursue various initiatives designed to improve its health, safety and environmental performance.

Exploration & Production

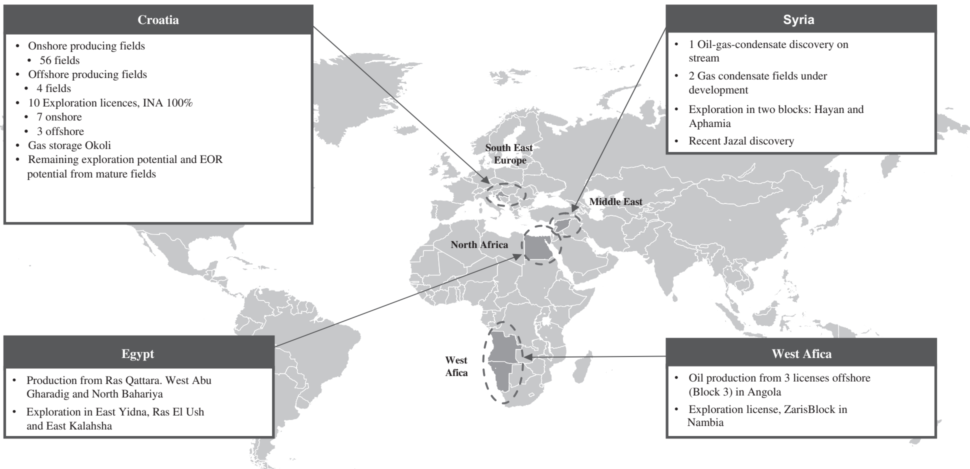
Overview

The Exploration & Production business segment explores for, develops and produces crude oil, natural gas and natural gas condensate, primarily onshore Croatia, with a developing presence in offshore Croatia and in certain other countries in the Middle East (Syria) and Africa (Egypt, Angola and Namibia). The business segment also imports natural gas from Russia and stores and sells this natural gas and the natural gas it produces from its onshore and offshore fields to eligible customers and distributors in Croatia.

For the year ended 31 December 2005 and the six months ended 30 June 2006, the Exploration & Production business segment contributed HRK 1,562 million, or 77.1 per cent., and HRK 968 million, or 97.9 per cent., respectively, to INA's profit from operations before Corporate and Other overheads and other losses. As of 30 June 2006, the Exploration & Production business segment had 2,247 employees.

In the short term, INA Group plans to pursue development and production opportunities at INA's existing fields in Croatia, most notably EOR projects onshore Croatia and development and production projects for natural gas offshore Croatia and for natural gas, crude oil and condensate in Syria. Exploration activity is also planned in the long term, as INA Group is evaluating the possibility of securing additional exploration and production assets in its current focus areas of Africa and the Middle East and possibly new areas such as the CIS region. This is likely to involve the acquisition of a concession via a joint venture or partnership, whereby risks and technical knowledge are shared.

The following map shows the location of INA Group's exploration and production activities.



In 2005, INA Group's production was approximately 19.6 MMboe, equivalent to an average production of 54 Mboe/d. Natural gas accounted for 55 per cent. and crude oil and natural gas condensates accounted for 45 per cent. of production. As of 31 December 2005, INA Group had approximately 245 MMboe of proved reserves and 386 MMboe of proved and probable reserves. Natural gas accounted for approximately 68 per cent. and crude oil and natural gas condensates accounted for approximately 32 per cent. of proved and probable reserves. INA Group's estimated reserves as of 31 December 2005 were audited by PGL. See "— Natural gas, natural gas condensate and crude oil reserves and production".

Natural gas, natural gas condensate and crude oil reserves and production

INA has arranged annual audits of INA Group's reserves since 1996. Various companies have performed these audits. The Reserves Audit for 2005 was performed by PGL, and a letter relating to this audit is attached to this prospectus as Appendix 1. A reserves audit differs from a reserves evaluation in that it is designed to validate INA's own assessment of reserves, rather than to re-calculate them, based on INA's base data.

INA models its larger fields in-house, using well-known industry simulation packages including Eclipse, VIP and Material Balance ("MBAL"). Geological and petrophysical modeling is performed in-house using the Landmark, Petrel and Geoframe software packages.

The following table sets forth INA Group's estimated proved plus proved and probable reserves by country or region as of 31 December 2005, as set forth in the Reserves Audit, adjusted to reflect its pro rata share of non-wholly-owned interests where appropriate, as well as the net present value of such reserves.

	Proved reserves as of 31 December 2005					Proved and probable reserves as of 31 December 2005				
	Natural gas	Natural gas condensate	Crude oil	Total	Capital expenditure(1)	Natural gas	Natural gas condensate	Crude oil	Total	Capital expenditure(1)
	(Bcf)	(MMbbl)	(MMbbl)	(MMboe)	(U.S.$ millions)	(Bcf)	(MMbbl)	(MMbbl)	(MMboe)	(U.S.$ millions)
Croatia										
Onshore	547.8	18.5	44.5	154.3	40.2	660.5	18.8	81.7	210.6	182.5
Offshore	504.1	0.0	0.0	84.0	115.2	557.2	0.0	0.0	92.9	115.2
Syria	0.0	0.0	1.0	1.0	0.0	366.4	8.3	4.8	74.1	176.4
Africa	0.0	0.0	5.7	5.7	12.3	0.0	0.0	8.2	8.2	44.9
Total	1,052.0	18.5	51.2	245.1	167.6	1,584.1	27.1	94.6	385.8	519.0
Developed	883.6	18.0	47.0	212.3		—	—	—	—	
Undeveloped	168.4	0.5	4.2	32.8		—	—	—	—	
NPV (10%) before tax(2)	—	—	—	2,549		—	—	—	3,664	
NPV (10%) after tax(2)	—	—	—	2,126		—	—	—	3,122	

Source: Reserves Audit

Notes:

(1) Aggregate capital expenditures between 2006 and end of field life in Reserves Audit.

(2) U.S. dollars millions. Based on Croatian crude oil price of U.S.$55.23/bbl, Croatian natural gas price of U.S.$4.44/Mcf, Croatian condensate price of U.S.$61.12/bbl, Egyptian crude oil price of U.S.$51.33/bbl, Angolan crude oil price of U.S.$51.40/bbl, Syrian crude oil and condensate price of U.S.$53.38/bbl, Syrian natural gas price of U.S.$4.39/mcf, Syrian Jihar LPG price of U.S.$238/t, Syrian Al-Mahr LPG price of U.S.$220/t. Aggregate cashflows for proved reserves (2006 — end of field lives per Reserves Audit): revenue (net of production sharing) — U.S.$8,523 million; operating expenditures, overhead and royalties — U.S.$3,412 million; capital expenditures —

U.S.$168 million; taxes — U.S.$774 million. Aggregate cashflows for proved and probable reserves (2006 — end of field lives per Reserves Audit): revenue (net of production sharing) — U.S.$13,753 million; operating expenditures, overhead and royalties — U.S.$4,691 million; capital expenditures — U.S.$519 million; taxes — U.S.$1,126 million.

For the year ended 31 December 2005, INA Group's proved reserve replacement rate was 124 per cent., mainly as a result of additions of proved reserves from offshore Croatian gas fields and minor additions from oil fields in Angola and the Jihar field in Syria. INA Group's proved and proved and probable reserve replacement rates have averaged 134 per cent. and 342 per cent., respectively, over the last three years, mainly as a result of reserve additions in offshore Croatia. Probable reserve additions were sourced principally from offshore Croatia and Syria.

The following table sets forth INA Group's pro rata average daily production for the three years ended 31 December 2005.

	Production for the year ended 31 December 2003				Production for the year ended 31 December 2004				Production for the year ended 31 December 2005			
	Natural gas	Natural gas condensate	Crude oil	Total	Natural gas	Natural gas condensate	Crude oil	Total	Natural gas	Natural gas condensate	Crude oil	Total
	(MMcf/d)	(Mbbl/d)	(Mbbl/d)	(Mboe/d)	(MMcf/d)	(Mbbl/d)	(Mbbl/d)	(Mboe/d)	(MMcf/d)	(Mbbl/d)	(Mbbl/d)	(Mboe/d)
Croatia												
Onshore	146.1	7.7	14.7	46.8	145.4	7.7	13.7	45.6	134.8	7.4	12.9	42.8
Offshore	32.9	0.0	0.0	5.5	33.1	0.0	0.0	5.5	43.1	0.0	0.0	7.2
Syria	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.2
Africa	0.0	0.0	3.1	3.1	0.0	0.0	3.1	3.1	0.0	0.0	3.7	3.7
Total	179.0	7.7	17.8	55.3	178.5	7.7	16.8	54.3	177.8	7.4	16.8	53.8

INA Group's pro rata average daily production for the first half of 2006 is set out in the following table.

	Production for the six months ended 30 June 2006			
	Natural gas	Natural gas condensate	Crude oil	Total
	(MMcf/d)	(Mbbl/d)	(Mbbl/d)	(Mboe/d)
Croatia				
Onshore	131.3	8.3	12.6	42.8
Offshore	56.9	0.0	0.0	9.5
Syria	0.0	0.0	0.7	0.7
Africa	0.0	0.0	1.8	1.8
Total	188.2	8.3	15.1	54.8

Principal oil and natural gas regions

The following is a description of the assets and activities of the Exploration & Production business segment by region.

Croatia

Croatia represented 79 per cent. of INA Group's total proved and probable reserves as of 31 December 2005 and 94 per cent. of its total production of crude oil and natural gas for the year ended 31 December 2005. The following table provides information on INA Group's largest onshore and offshore fields.

	Proved reserves as of 31 December 2005				Proved and probable reserves as of 31 December 2005			
	Natural gas	Natural gas condensate	Crude oil	Total	Natural gas	Natural gas condensate	Crude oil	Total
	(Bcf)	(MMbbl)	(MMbbl)	(MMboe)	(Bcf)	(MMbbl)	(MMbbl)	(MMboe)
Croatia Onshore	547.8	18.5	44.5	154.3	660.5	18.8	81.7	210.6
Molve	281.7	4.7	0.0	51.7	281.7	4.7	0.0	51.7
Kalinovac	157.0	10.3	0.0	36.5	157.0	10.3	0.0	36.5
Žutica	6.1	0.0	4.1	5.2	44.7	0.0	28.6	36.1
Ivanić	3.5	0.0	4.5	5.1	25.3	0.0	16.3	20.5
Stružec	4.5	0.0	9.5	10.2	4.5	0.0	9.5	10.2
Gola deep	39.3	1.6	0.0	8.1	39.3	1.6	0.0	8.1
Vuckovec	0.0	0.0	0.0	0.0	29.9	0.1	0.0	5.1
Đeletovci	0.7	0.0	3.8	3.9	0.7	0.0	3.8	3.9
šandrovac	1.2	0.0	2.8	3.0	1.2	0.0	2.8	3.0

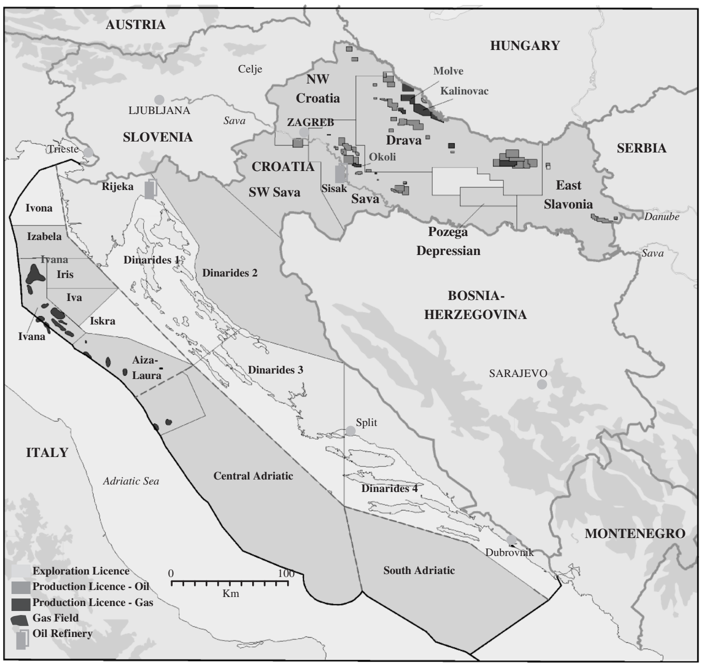
	Proved reserves as of 31 December 2005				Proved and probable reserves as of 31 December 2005			
	Natural gas	Natural gas condensate	Crude oil	Total	Natural gas	Natural gas condensate	Crude oil	Total
	(Bcf)	(MMbbl)	(MMbbl)	(MMboe)	(Bcf)	(MMbbl)	(MMbbl)	(MMboe)
Stari Gradac	9.0	1.3	0.0	2.8	9.0	1.3	0.0	2.8
Okoli	13.3	0.5	0.0	2.7	13.3	0.5	0.0	2.7
Benicanci	1.1	0.0	2.2	2.4	1.1	0.0	2.2	2.4
Jamarica	1.9	0.0	2.0	2.3	1.9	0.0	2.0	2.3
Lipovljani	2.2	0.0	0.0	0.4	2.2	0.0	0.0	0.4
Privlaka	0.5	0.0	1.9	2.0	0.5	0.0	1.9	2.0
Ferdinandovac	0.0	0.0	0.0	0.0	10.4	0.2	0.0	1.9
Other onshore	25.8	0.1	13.7	18.0	37.8	0.1	14.6	21.0
Croatia Offshore	504.1	0.0	0.0	84.0	557.2	0.0	0.0	92.9
Ivana	131.3	0.0	0.0	21.9	139.4	0.0	0.0	23.2
Anamarija	109.0	0.0	0.0	18.2	128.2	0.0	0.0	21.4
Ika	85.9	0.0	0.0	14.3	102.4	0.0	0.0	17.1
Ida	79.3	0.0	0.0	13.2	80.4	0.0	0.0	13.4
Katarina	54.2	0.0	0.0	9.0	59.2	0.0	0.0	9.9
Marica	44.3	0.0	0.0	7.4	47.6	0.0	0.0	7.9
Total	1,052.0	18.5	44.5	238.3	1,217.7	18.8	81.7	303.5

Source: Reserves Audit

Oil and gas exploration and production activities in Croatia began in the 1870s, and INA or its legal predecessors have been involved in exploration and production activities in Croatia since 1952.

INA is the only holder of licenses for exploration and production of oil and natural gas in Croatia. INA holds and operates all onshore licenses, and holds all offshore production licenses in the Adriatic Sea and has entered into production sharing agreements ("PSAs") with ENI and Edison, respectively, with regard to such offshore licenses.

The following chart indicates the location of INA's exploration and production licenses offshore Croatia.



The Mining Act of 1991 (as amended) allows only Croatian incorporated companies to participate in exploration and exploitation (production). All exploration licenses have a three-year term, extendable to five years provided there is a satisfactory work program. The term of exploitation licenses is decided by the Government upon the granting of the concession. The mining regulations provide that exploration of a field should be permitted over an area of a sufficient size, given the quantity and position of the mineral resources identified there, to enable a maximum of 40 years' production of mineral resources from that field. In practice, if the production life of the field exceeds this period, the production right may be extended for up to 99 years. See "Regulation — Croatia — Industry regulation — Regulation of exploration for and exploitation of mineral resources — Exploitation".

Production from oil and natural gas fields is subject to the payment to the applicable authorities of a mineral resources exploitation fee (similar to a royalty fee) of 2.6 per cent. (or 5 per cent. in special state-care areas) of gross revenues derived from the sale of oil and natural gas exploited (produced) at the field. See "Risk Factors — INA Group is exposed to changes in the taxes, royalties and customs duties imposed on its operations" and "— Government regulation and intervention affect INA Group's business".

Onshore

The following table sets forth INA Group's total pro rata production of crude oil, natural gas condensate and natural gas from INA's Croatian onshore fields for the three years ended 31 December 2005 and for the six months ended 30 June 2006.

	Production for the year ended 31 December			Production for the six months ended 30 June
	2003	2004	2005	2006
Crude oil (MMbbl)	5.4	5.0	4.7	2.3
Natural gas condensate (MMbbl)	2.8	2.8	2.7	1.5
Natural gas (Bcf)	53.3	53.1	49.2	23.8
Natural gas (Bcm)	1.5	1.5	1.4	0.7
Total production — Onshore (MMboe)	17.1	16.7	15.6	7.8
Average daily production (Mboe/d)	46.8	45.6	42.7	43.1

The following table sets forth INA Group's average daily production of crude oil, natural gas condensate and natural gas from INA's Croatian onshore fields, by major field, for the three years ended 31 December 2005 and for the six months ended 30 June 2006.

	Production for the year ended 31 December 2003				Production for the year ended 31 December 2004				Production for the year ended 31 December 2005				Production for the six months ended 30 June 2006			
	Natural gas	Natural gas condensate	Crude oil	Total	Natural gas	Natural gas condensate	Crude oil	Total	Natural gas	Natural gas condensate	Crude oil	Total	Natural gas	Natural gas condensate	Crude oil	Total
	(MMcf/d)	(Mbbl/d)	(Mbbl/d)	(Mboe/d)	(MMcf/d)	(Mbbl/d)	(Mbbl/d)	(Mboe/d)	(MMcf/d)	(Mbbl/d)	(Mbbl/d)	(Mboe/d)	(MMcf/d)	(Mbbl/d)	(Mbbl/d)	(Mboe/d)
Croatia Onshore	146.0	7.7	14.7	46.8	145.5	7.7	13.8	45.6	134.6	7.5	12.8	42.7	131.3	8.3	12.6	43.1
Molve	73.2	2.7	0.0	14.9	70.7	3.1	0.0	14.9	65.0	3.1	0.0	13.9	62.7	4.0	0.0	14.5
Kalinovac	29.4	3.3	0.0	8.2	25.5	3.0	0.0	7.3	25.4	2.9	0.0	7.1	27.4	3.1	0.0	7.7
Žutica	3.6	0.0	2.0	2.6	3.2	0.0	1.8	2.3	2.7	0.0	1.7	2.2	2.9	0.0	1.7	2.2
Ivanić	0.6	0.0	1.1	1.2	0.6	0.0	1.0	1.1	0.6	0.0	1.0	1.1	0.5	0.0	1.0	1.1
Stružec	1.2	0.0	2.3	2.5	1.1	0.0	2.1	2.3	0.9	0.0	2.0	2.2	0.8	0.0	2.0	2.1
Gola Deep	6.6	0.5	0.0	1.6	6.9	0.5	0.0	1.7	7.0	0.5	0.0	1.7	6.6	0.4	0.0	1.5
Vučkovec	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Đeletovci	0.3	0.0	1.0	1.1	0.3	0.0	0.9	1.0	0.2	0.0	0.8	0.8	0.2	0.0	0.8	0.8
Sandrovac	0.3	0.0	1.3	1.4	0.3	0.0	1.2	1.3	0.2	0.0	1.2	1.2	0.2	0.0	1.4	1.4
Stari Gradac	4.3	0.8	0.0	1.5	3.9	0.7	0.0	1.4	3.6	0.6	0.0	1.3	3.7	0.6	0.0	1.2
Okoli	8.2	0.3	0.0	1.7	7.6	0.2	0.0	1.5	6.3	0.2	0.0	1.3	4.4	0.1	0.0	0.8
Beničanci	0.3	0.0	0.6	0.7	0.2	0.0	0.6	0.6	0.2	0.0	0.5	0.5	0.2	0.0	0.5	0.5
Jamarica	0.7	0.0	1.0	1.1	1.3	0.0	0.9	1.1	1.4	0.0	0.8	1.0	2.1	0.0	0.8	1.2
Lipovljani	1.6	0.0	1.0	1.3	2.4	0.0	0.9	1.3	2.6	0.0	0.8	1.2	3.0	0.0	0.8	1.3
Privlaka	0.3	0.0	0.5	0.6	0.3	0.0	0.5	0.6	0.3	0.0	0.5	0.6	0.1	0.0	0.4	0.4
Ferdinandovac	0.2	0.0	0.1	0.1	0.3	0.0	0.1	0.2	0.3	0.0	0.1	0.2	0.5	0.0	0.1	0.2
Other onshore	15.2	0.1	3.8	6.3	20.9	0.2	3.8	7.0	17.9	0.2	3.4	6.5	16.0	0.1	3.1	6.2

For the year ended 31 December 2005, INA Group's Croatian onshore production accounted for 85 per cent. of INA Group's Croatian production and 80 per cent. of its total production of crude oil and natural gas. INA currently has 59 production licenses covering 3,280 km^2 and seven exploration licenses covering 39,361 km^2. INA operates 36 onshore crude oil fields with 785 wells and, through joint venture companies, 20 onshore natural gas fields with a total of 102 wells.

The following table summarizes the status of INA's onshore exploration licenses.

Block	Gross area (km^2)	License expiry date
East Slavonia	2,963	31.12.2008
Southwest Sava	2,576	31.12.2008
Požeška Kotlina	684	31.03.2009
Dinarides 2	10,557	31.12.2009
North-West Croatia	3,914	31.12.2010
Drava	9,456	31.12.2010
Sava	9,211	31.12.2010

INA's onshore fields are concentrated primarily in the depressions running along the Sava and Drava rivers in the Pannonian basin, in the north-east region of the country. There are also smaller levels of production in north-west Croatia and east Slavonia.

Drava: The Drava depression, located in the north-east of the country along the border with Hungary, is the largest producing region in onshore Croatia. INA's licenses in the region cover a total gross area of 9,456 km^2. The Drava depression is predominantly natural gas-bearing, and its main fields were discovered in the 1970s. The depression contains the natural gas condensate fields Molve, Kalinovac and Stari Gradac, which are the largest fields onshore Croatia. The natural gas produced is acidic and high in CO_2 content. The Molve and Kalinovac fields represented approximately 69 per cent. of INA Group's domestic onshore natural gas production, or 48 per cent. of INA Group's domestic onshore and offshore natural gas production during the first six months of 2006. The biggest oil field, Benicanci, is located in the deep central parts of the depression. As of 31 December 2005, 17 crude oil fields and eight natural gas fields were in operation in the Drava depression, comprising a total of 280 wells. Several oil fields at depths of less than 1,200 meters have also recently been discovered in the depression.

There is potential for the discovery of new oil and gas fields in the region, with several prospects already defined. Exploration well Rakitnica-1 was drilled at the beginning of 2006 and encountered natural gas, and testing procedures are still in progress.

Sava: The Sava depression is located in the area east of Zagreb and south of the Drava depression. INA's licenses in the region cover a total gross area of 9,211 km^2. The Sava depression comprises a south-east trending series of oil fields with some condensate and natural gas accumulations occurring in the most easterly region away from Zagreb.

Main crude oil fields were discovered in the Sava depression in the 1960s and 1970s. The development of these fields resulted in Croatian crude oil production peaking in the early 1980s. As of 31 December 2005, 12 crude oil fields and one natural gas field were in operation in the Sava depression, comprising a total of 534 wells. The remaining hydrocarbon potential of the Sava depression is being analyzed.

North-west Croatia: The north-west region of Croatia, located north of Zagreb at the borders with Slovenia and Hungary, includes two smaller depressions, the Mura and Hrvatsko Zagorje depressions. INA's licenses in the region cover a total gross area of 3,914 km^2. Several smaller fields are located in the Mura depression. The Hrvatsko Zagorje depression is one of the less explored regions in Croatia, and no field has been found yet. However, there are indications that good source rocks exist and that there is the possibility of oil and natural gas-bearing reservoirs being discovered.

East Slavonia: The East Slavonia region, located in the north-east of the country at the border with Serbia, contains three oil fields in the Slavonia-Srijem depression. INA's licenses in the region cover a total gross area of 2,963 km^2.

Dinarides: INA had licenses for four exploration blocks in the Dinarides region. Three of the licenses for these blocks have expired, and INA is in the process of seeking renewal of these licenses from the Government. The remaining license covers a total gross area of 10,557 km^2. INA Group expects to undertake future exploration in this area in conjunction with a large international partner.

Onshore field facilities

Oil: INA Group's onshore oil production generally has 30-40° API gravity and low sulfur content of up to 0.4 per cent. Oil produced in the Drava depression and in the western part of the Sava depression is transported through a network of INA Group's own pipelines to its Sisak refinery. Production in the eastern part of the country is transported by INA's pipeline to its Ruščica terminal, where it is loaded onto barges and transported along the Sava river to the Sisak refinery. INA Group's oil transportation infrastructure includes 12 gathering stations, 27 measuring stations, eight dispatching stations, three loading stations, 1,266 km of connecting pipelines, 400 km of pressure pipelines, 335 km of main pipelines, 102,000m^3 (642 Mbbl) of oil storage capacity and 177 km of condensate pipelines.

Natural Gas: INA Group gathers and treats all natural gas produced from its fields and delivers it to the high-pressure network owned and operated by Plinacro for distribution, principally to certain commercial businesses and distributors. INA Group's natural gas infrastructure comprises 20 gas stations, seven compressor stations, 393 km of connecting gas pipelines, 274 km of main natural gas pipelines, 89 km of product lines, the natural gas treatment plant located in Molve and the ethane recovery plant located in Ivanić Grad.

The natural gas produced from the Molve, Kalinovac, Stari Gradac and Gola Deep fields contains relatively high levels of hazardous and corrosive components, including CO_2. After the first pressure reduction and natural gas condensate separation, natural gas is transported to the Molve treatment plants where the extraction of hazardous components is carried out, while the natural gas condensate is gathered and transported to the Sisak refinery by oil pipelines. At one of the Molve treatment plants, components are extracted from natural gas and transported by INA's own pipeline to the ethane plant as feedstock for LPG production, while the natural gas is delivered to Plinacro's network. Natural gas treated at the other Molve treatment plants is transported by INA's own pipeline to the ethane plant for LPG extraction, prior to being delivered to Plinacro's network.

The ethane recovery plant has a capacity of 106 Mcf/d and separates ethane, propane, butane, LPG, penthane and virgin naphtha from the associated natural gas and produces methane of the required specifications for delivery to the Plinacro system. Ethane is sold under a long-term contract to Dioki, a company which manufactures plastics. LPG is sold domestically to INA's subsidiary, Proplin, and to INA's lubricant factory at Rijeka, as well as to customers outside Croatia.

Current development and exploration plans

INA's onshore reservoirs in Croatia are mature. Total oil and natural gas production declined by an average of 6 per cent. per year for the three years ended 31 December 2005. Only 10 per cent. of INA's onshore wells have natural flowing production, while the remainder employ artificial lift of oil, of which 41 per cent. is by natural gas lift and 49 per cent. is pumped.

In order to offset the decline in production, INA Group is pursuing two key initiatives:

- the Međimurje project, which is aimed at developing three new natural gas fields (the Vukanovec, Vućkovec and Zebanec fields) in the Međimurje region in the north of the country. The project requires an investment of approximately HRK 270 million. Exploitation (production) is expected to commence in 2008, with aggregate estimated production of approximately 38.8 Bcf of natural gas and 53 Bcf of carbon dioxide until 2018. In addition, INA Group has recently obtained 160.3 km^2 of 3D seismic data in the Međimurje region, and is seeking to confirm the presence of potential natural gas reserves on Nedelišće and Peklenica prospects; and
- an EOR project, which is designed to increase the recovery of crude oil at the existing Ivanić, Žutica and Benicanci crude oil fields in the Sava and Drava depressions. A feasibility study conducted by consultants on the Ivanić and Žutica oil fields indicates that there may be an additional 36.1 MMbbl of possible oil reserves and an additional 21.0 MMbbl of probable oil reserves at each of the Ivanić and Žutica oil fields. These studies have also been evaluated by PGL. The Ivanić and Žutica EOR projects are expected to produce incremental production from 2009 onwards, while the Benicanci EOR project is forecast to produce incremental production in 2011. The studies for these EOR projects have been financed by the U.S. Trade and Development Agency. See "Risk Factors — INA Group may fail to replace its current reserves and sustain current production levels".

INA Group plans to make increased use of carbon dioxide injections to improve recovery on INA's mature fields. In order to minimize the costs associated with doing so, as well as reducing group-wide CO_2 emissions, it will principally use CO_2 sources from INA Group's Molve treatment plant and the Medimurje projects, which generate a considerable amount of waste CO_2.

In addition to the foregoing projects, INA Group plans to drill an average of four to five development wells per year. INA Group has identified 20 prospects onshore Croatia, and expects to drill an average of two to three exploration wells per year.

Activities include:

- accessing the Selec-1 well in the Sava depression in early 2007. Also, further prospects have been identified by INA Group by targeting deeper reservoirs on the southern rim of the Sava depression; and
- drilling in the Drava depression. INA Group is, in partnership with MOL, planning to explore potential natural gas condensate and oil reservoirs at the Ferdinandovac and Vizvar fields on the Croatian/Hungarian border.

Offshore

The following table sets forth INA Group's total pro rata share of production of natural gas from INA's Croatian offshore fields for the three years ended 31 December 2005 and the six months ended 30 June 2006.

	Production for the year ended 31 December			Production for the six months ended 30 June
	2003	**2004**	**2005**	**2006**
Total natural gas production (Bcf)	12.0	12.1	15.7	10.3
Average daily natural gas production (MMcf/d)	32.9	33.1	43.1	56.9

The following table sets forth INA Group's pro rata share of average daily production of natural gas from INA's Croatian offshore fields, by field, for the three years ended 31 December 2005 and for the first half of 2006.

	Production for the year ended 31 December			Production for the six months ended 30 June
	2003	**2004**	**2005**	**2006**
			(Mcf/d)	
Ivana	32.9	33.1	33.0	31.1
Anamarija	0.0	0.0	0.0	0.0
Ika	0.0	0.0	0.0	7.4
Ida	0.0	0.0	0.0	7.8
Katarina	0.0	0.0	0.0	0.0
Marica	0.0	0.0	10.1	10.6
Total Croatia offshore	32.9	33.1	43.1	56.9

INA Group made its first discoveries in the Adriatic in the 1970s and 1980s, including the Ivana field in 1973. Production commenced in 1999. Offshore Croatia is divided into three areas: the North, Central and South Adriatic, which cover gross areas of 9,232 km^2, 16,606 km^2 and 10,758 km^2, respectively. INA has exploration licenses for all of these areas, which expire in January 2007. Requests for extension of these licenses have been filed, and INA Group expects their renewal for a period of five years. All of INA Group's current offshore operations and activities are concentrated in the North Adriatic area, which has been divided into exploitation fields covered by separate licenses. INA Group has conducted some exploration activities with limited success in the Central and South Adriatic areas, and, while it has identified the existence of hydrocarbons, it has not identified any commercially viable prospects.

The following table sets forth the offshore exploration licenses by area for which INA is the sole license holder.

Area	**Gross area (km^2)**	**Expiry of exploration license**
North Adriatic	9,232	15.01.2007
Central Adriatic	16,606	17.01.2007
South Adriatic	10,758	17.01.2007

Offshore production is 100 per cent. natural gas. The natural gas is composed mainly of methane (>99 per cent.), with traces of CO_2 and N_2.

While INA is the only license holder in Croatia covering domestic extraction and production of oil and natural gas (onshore and offshore), in order to attract capital and industry know-how, INA has entered into separate production sharing arrangements with ENI and Edison in respect of natural gas development in the North Adriatic.

INA signed two separate PSAs with ENI, which define the terms and conditions of their business relationship relating to research, development and production of hydrocarbons in the offshore area of Croatia. In 1996, the parties established INAgip, an operating company in which both INA and ENI have a 50 per cent. interest, to implement the PSAs for a definite term of 35 years as of the beginning of commercial production.

INA and Edison entered into a PSA on 22 April 2002 for the exploration of the Izabela and Iris/Iva blocks. Edison was initially the operator of these blocks and, six months after the effective date of the PSA, transferred its operatorship to the joint operating company, EdINA. EdINA is owned 50 per cent. by INA and 50 per cent. by Edison, and is responsible for carrying out the oil operations in the contract area on an exclusive basis. The company was founded for a period of 35 years.

For further details of these PSAs, see "Listing and General Information — (14)".

INAgip Adriatic Project

The INAgip Adriatic Project includes two contract areas, North Adriatic and Aiza-Laura (which includes part of the North Adriatic and Central Adriatic license areas). The North Adriatic area includes the Ivana, Ika and Ida, and Anamarija natural gas fields. The Aiza-Laura area includes the Marica and Katarina natural gas fields. The INAGip Adriatic project area is INA Group's most important development area. All of these fields are operated by INAgip. Output from these fields is shared between INA Group and ENI in accordance with PSAs. See "Listing and General Information — (14)".

North Adriatic: The Ivana field is located in the Adriatic Sea, approximately 50 km south-west of Pula and east of the Italian and Croatian international median line. The field was discovered in 1973 and started production in 1999. The production license for the North Adriatic Project expires in 2024 although, in practice, INA Group believes that, for as long as it has production possibilities, its production licenses will be renewed. The license term is reviewed every five years in view of the project's production profile. The exploration and production license covers an area of 1,757 km^2. The Ivana field comprises five platforms and 14 wells, while current development activities include the installation of one additional platform and the drilling of one development well.

As of 31 December 2005, proved reserves of natural gas for the Ivana field were 131.3 Bcf and proved and probable reserves were 139.4 Bcf. For the year ended 31 December 2005, production from the Ivana field was approximately 66.2 MMcf/d (33 MMcf/d net to INA Group). The natural gas is dry with an average composition of 98.2 per cent. methane, 1.6 per cent. N_2 and 0.21 per cent. CO_2. Natural gas produced at the Ivana field is presently transported through Italy and Slovenia to Croatia.

The Ika and Ida fields have been in production since early 2006, and are connected to the Ivana field. Peak production is expected in 2007 for both fields at rates of 24.4 MMcf/d net to INA and 20.6 MMcf/d net to INA respectively.

INA Group's development plan for Anamarija field envisions one platform and a total of four wells. The Anamarija field will be connected to the Ika field by 2009 via a 12 km pipeline that is planned to be constructed. Peak production is also expected in 2009 at a rate of 23.2 MMcf/d (net to INA). Field life is expected to be 20 years.

Aiza-Laura: The Marica field covers a gross area of 4,246 km^2. The production license for the Marica field expires in 2015. The field comprises one platform and three wells. It started production in 2004 and currently INA Group's share of daily production capacity is approximately 10.1 MMcf/d.

As of 31 December 2005, proved reserves of natural gas were 44.3 Bcf and proved and probable reserves were 47.6 Bcf. Natural gas produced at the Marica field is transported by pipeline, the Croatian portion of which is owned by INA Group, to the nearby Barbara T2 platform operated by ENI and located in Italian waters, and from there through a 88 km long pipeline to the onshore terminal near Falconara in Italy, where it is injected into the Italian high-pressure transportation network.

INA Group's development plan for Katarina field envisions one platform and a total of three wells. The Katarina field will be connected to the Marica field by the end of 2006. Peak production is expected by 2007 at a rate of 16.2 MMcf/d (net to INA).

According to a swap agreement with ENI, INA Group's share of natural gas produced by the Marica field is shipped by ENI to Croatia via Austria and Slovenia (via Rogatec).

Legal requirements under Italian law and the commercial terms with ENI require INA Group to sell its share of natural gas to ENI at the Garibaldi platform. INA Group buys back processed natural gas *ex terminal* at Casalborghetti. The difference between the sale and buyback price is small and represents a fee for processing and compression of the natural gas. INA Group also pays a fee of approximately U.S.$8/Mm^3 (U.S.$0.23/ Mcf) for natural gas transportation from Casalborghetti to Rogatec via Slovenia.

INAgip is in the process of constructing a 44.5 km, 18" pipeline, called Mini Gea, with a capacity of 144 Mcf/d. Mini Gea will connect the Ivana field to the Croatian coast at the Pula terminal. The pipeline is expected to start operation by 2007. INA plans to sign a swap agreement with ENI whereby it will deliver to ENI its share of the natural gas production from the Marica and Katarina fields in exchange for an equivalent amount of natural gas production from the Ivana fields, in order to enable it to import all of its natural gas production to Croatia through the Mini Gea pipeline. The pipeline could also be used to import natural gas from Italy, if production from the Ivana field decreases in the future.

New Prospects: In early 2006, two successful exploration wells, Ana and Vesna, were drilled by INAgip south-east of the Ivana natural gas field. INA Group estimates that the reserves recoverable from the fields will be approximately 49.4 Bcf of natural gas. Costs and future production from these fields will be shared according to the terms of the PSA outlined above. INA Group is in the process of obtaining approval for its development plan for these fields, which will include two platforms and three development wells. INA Group expects that it will commence development in 2007, with production expected to commence in 2008.

INAgip has identified four to five exploration prospects and expects to drill two exploration wells in 2007.

EdINA Project

EdINA, a joint venture between INA and Edison, is exploring two fields in the North Adriatic Sea, north of the Ivana field, Izabela and Ivona.

The Izabela field covers an area of 889.8 km^2. In 2005, 3D seismic data was collected and three exploration wells were drilled, which resulted in the discovery of natural gas reserves at two wells, namely Izabela-1 (drilled in 2004) and Izabela-2 (drilled in 2005/6), which delineated the Izabela natural gas field. INA Group estimates that reserves recoverable from the Izabela field will be approximately 84.7 Bcf. At the third, the Irena-1 well, which was drilled in 2006, no commercial reserves were encountered. INA is in the process of obtaining approval for its development plan for this field and expects that it will commence development in 2008 with production expected to commence in 2009.

The Ivona field contract was signed in December 2005 and covers an area of 1,452 km^2. 2D seismic data was collected in 2005 and interpretation of seismic data is in progress.

No exploration activity is planned in 2007.

Syria

INA Group has been active in Syria since 1998, and is currently independently exploring and developing two blocks. As of 31 December 2005, INA Group's total Syrian proved and probable reserves of 74.1 MMboe represented approximately 19 per cent. of its total proved and probable crude oil, natural gas condensate and natural gas reserves. The following table sets out INA Group's share of total proved and probable reserves in Syria as of 31 December 2005.

	Proved reserves as of 31 December 2005				Proved and probable reserves as of 31 December 2005			
	Natural gas	Natural gas condensate	Crude oil	Total	Natural gas	Natural gas condensate	Crude oil	Total
	(Bcf)	(MMbbl)	(MMbbl)	(MMboe)	(Bcf)	(MMbbl)	(MMbbl)	(MMboe)
Jihar	0.0	0.0	1.0	1.0	252.2	7.2	4.8	54.0
Al Mahr	0.0	0.0	0.0	0.0	90.0	1.1	0.0	16.1
Palmyra	0.0	0.0	0.0	0.0	24.2	0.0	0.0	4.0
Total	0.0	0.0	1.0	1.0	366.4	8.3	4.8	74.1

Source: Reserves Audit

INA has signed two PSAs with the Government of the Syrian Arab Republic and the Syrian Petroleum Company ("SPC"), which allow for the exploration, development and production of hydrocarbons in Syria. INA's branch office in Syria was established in 1998 after signing the first PSA, which covers the Hayan Concession. The second PSA covers the Aphamia Concession and was effective on 26 June 2004. For details of both PSAs, see "Listing and General Information — (14)". As at 31 December 2005, INA Group had spent in excess of U.S.$240 million in Syria on exploration and development activities in the Hayan and Aphamia blocks.

In line with the Hayan Concession, PSA, INA and SPC have established a joint operating company, the Hayan Petroleum Company, which is responsible for the development and production of all commercial discoveries on the Hayan block.

Hayan

The Hayan block is located in the central part of Syria and originally covered an area of 4,795 km^2. INA Group relinquished approximately 25 per cent. of its total acreage after the initial exploration phase. In the last two years, exploration activities have focused on the Jihar, Al Mahr and Palmyra fields, in all of which hydrocarbon reserves have been confirmed.

The Jihar field, located approximately 250 km north-east of Damascus, has six wells and 252 Bcf of proved and probable natural gas reserves, as well as 12 MMbbl of proved and probable crude oil and natural gas condensate reserves as of 31 December 2005. Production of crude oil started in August 2005 and production of natural gas is expected to start in 2007, with a field life of 21 years. Peak production is expected to be approximately 46.5 MMcf/d of natural gas (net of production sharing) and 3.7 Mbbl/d of crude oil and condensate (net of production sharing) and is expected to be reached in 2008.

The Al Mahr field has two wells and 90.0 Bcf of proved and probable natural gas reserves as of 31 December 2005. INA Group expects that production will start in 2007 with a field life of 21 years. Peak production is expected to be 21.2 MMcf/d of natural gas (net of production sharing) and 0.3 Mbbl/d of crude oil and condensate (net of production sharing) and is expected to be reached in 2008.

The Palmyra field has three wells and 24.2 Bcf of probable natural gas reserves as of 31 December 2005. No crude oil reserves have been confirmed. INA Group expects that production will start in 2006 and with a field life of 13 years. Peak production is expected to be approximately 7.4 MMcf/d (net of production sharing) and is expected to be reached in 2008.

The three fields of the Hayan block will be connected to the main oil and natural gas transport networks owned and operated by SPC. The Palmyra field will be connected via a 42 km pipeline to the natural gas treatment plant located in Arak, which is owned and operated by SPC. A newly built natural gas treatment plant owned and operated by SPC adjacent to the Jihar field will also serve the Al Mahr field. Limited production of condensate from the Palmyra field, as well as of LPG from the Jihar field, will be collected by truck.

The Jazal-1 exploration well is situated on the Jazal prospect which has been identified east of the Jihar field. The well construction started in January 2006 and was recently tested, producing at more than 3,000 bbl/d. The total depth of the well is planned at 3,995m. A development plan is expected to be approved by the end of 2006 with initial production expected as early as 2007. The primary objectives are carbonate reservoirs of Middle Triassic Kurrachine Dolomite Formation (C2, D1, D2_2) and Lower Triassic Amanus Shale Formation. Secondary targets are two sandstone reservoirs of Permian Amanus Sand Formation.

Aphamia

The Aphamia block is situated to the north-west of the Hayan block. In June 2004, the Syrian parliament ratified INA's PSA with SPC and INA's exploration rights became effective. The Aphamia PSA allows for an initial exploration period of four years starting from the effective date of the contract, and two further extensions to the initial exploration period of two years each. INA is currently in the initial exploration period which is due to expire on 25 June 2008. The two exploration wells which have been drilled by previous concessionaries (Salamieh-1 and Mudawara-1 wells, drilled by Marathon Petroleum in 1981 and 1982, respectively) on the block indicated the existence of crude oil reservoirs. For technical reasons, only two formations on the Mudawara-1 well were tested in the second half of 2005. The results of the production test of the Hara Moun Formation showed approximately 12.7 MMcf of natural gas and 7.5-12.1 bbl/d of condensate, as well as of 5,000-7,000 ppm of H_2S. Production tests of the Kurrachine Dolomite Formation range between 63-126 bbl/d of crude oil and 635 Mcf/d of natural gas. In 2005, 504 km of new 2D seismic data was acquired and processed. Seismic reinterpretation is in progress. The first exploration well, Jaddua-1, has been drilled and is currently being tested. After data reinterpretation, appraisal well Mudawara-2 is planned for 2007.

Future projects

The Syrian government, in an effort to offset natural declines in production, is opening new blocks for bidding. INA Group has participated in bidding processes for further exploration blocks for which bidding results have not yet been announced. INA Group intends to participate in future bidding for offshore exploration licenses in Syria.

INA Group is in the process of evaluating Syrian offshore seismic data acquired by Norwegian company InSeis AS in anticipation of participating in future tenders.

Other international

Egypt

INA Group has been present in Egypt since 1989 and currently has interests in three producing crude oil blocks (Ras Qattara, West Abu El Gharadig and North Bahariya) and three exploration blocks (East Yidma, Ras el Ush and East Kalabasha). All of INA Group's reserves in Egypt are of crude oil. As of 31 December 2005, INA Group's Egyptian proved and probable reserves of 3.6 MMbbl represented 0.9 per cent. of its total proved and probable reserves, while production of 2.0 Mboe/d represented 3.8 per cent. of its total production for the year ended 31 December 2005. The following table sets forth INA Group's share pro rata of total proved and probable crude oil reserves in Egypt as of 31 December 2005.

	Proved reserves as of 31 December 2005	Proved and probable reserves as of 31 December 2005
	(MMbbl)	(MMbbl)
Ras Qattara	1.5	2.1
West Abu El Gharadig	0.8	0.9
North Baharia	0.3	0.6
Total	2.6	3.6

Source: Reserves Audit

The following table sets forth INA Group's pro rata share of production of crude oil from Egypt for the three years ended 31 December 2005 and the six months ended 30 June 2006.

	Production for the year ended 31 December			Six months ended 30 June
	2003	2004	2005	2006
Crude oil (MMbbl)	0.5	0.6	0.8	0.3

Source: Reserves Audit

The Ras Qattara block, in the north-west of Egypt, which is owned 75 per cent. by IEOC and 25 per cent. by INA, and is operated by IEOC Exploration B.V. ("IEOC"), comprises two operating fields (El Faras and Zarif) and one under development (South East El Faras). The two fields have average daily production of 12,000 bbl/d. Thirteen new development wells are planned in 2006. Crude oil from the Ras Qattara block is 36° API gravity and < 0.1 per cent. sulfur.

The West Abu El Gharadig block, which is owned 45 per cent. by IEOC, 30 per cent. by Devon Energy and 25 per cent. by INA, and is operated by IEOC, in the north-west of the country, started production in 1996 and has an average daily production of 3,850 bbl/d. Five new development wells are planned in 2006, four of which have been completed. Crude oil is 36° API gravity and < 0.1 per cent. sulfur.

The North Bahariya block, which is owned 50 per cent. by Sipetrol, 30 per cent. by IPR Transoil and 20 per cent. by INA, and is operated by Sipetrol, in the north of the country, west of Cairo, started production in 2004 and has average total production of 1,250 bbl/d. Eight new wells are planned in 2006, four of which have been completed. Crude oil is 36° API gravity.

The East Yidma Block, which is owned 50 per cent. by INA and 50 per cent. by RWE-DEA, and is operated by INA Group, is located in the north-western desert, adjacent to the Mediterranean coast, covering 1,385 km^2. The first exploration phase started in March 2004 and expired in September 2006. Commitments for the first phase were acquiring 2D seismic data (already acquired 466 km 2D seismic data) and drilling two wells. The second exploration phase has now begun. The drilling of the first exploration well, Drazia-1, revealed non-commercial quantities of natural gas and natural gas condensate, and the well has been abandoned temporarily. The next well, Sidi Rahman-1, was accessed in July 2006 and drilling began in September 2006. Drilling has resulted in initial signs of oil and natural gas presence which will be further investigated upon completion of drilling. After completing the first exploration phase and based on geological evaluation of the new drilling results, INA will enter in the second exploration phase, which is expected to last two years, with commitments of drilling two wells.

The Ras El Ush Block, which is owned 75 per cent. by IEOC and 25 per cent. by INA, and is operated by IEOC, is located in the Suez bay (offshore), covering 159 km^2. The first exploration phase started in January 2003 and expired in July 2005. During the first exploration phase, which lasted 2.5 years, 92 km 2D seismic data was acquired and the Ghanim-1 well was drilled and abandoned as a dry well. After finishing the first exploration period, IEOC and INA decided to enter the second exploration phase in July 2005, commencing with the drilling of one exploration well.

The East Kalabasha block, which is owned 50 per cent. by IEOC, 25 per cent. by INA and 25 per cent. by RWE-DEA, and is operated by IEOC, is located in the north-western desert, covering 2,115 km^2. The first phase was started in May 2005 and will expire in May 2008. Commitments for the first phase are acquiring 2D and/or 3D seismic data and drilling three wells. IEOC prepared a feasibility study of the block for the purpose of planning 2D and/or 3D seismic survey. The acquisition of seismic data and the drilling of one is currently in progress.

INA Group anticipates that there will be future exploration activities on its existing blocks and that it will continue to participate in future bidding rounds.

Angola

INA Group first entered Angola in 1981 and currently has an interest in one producing offshore crude oil block, Block 3, close to the border with Congo. As of 31 December 2005, INA Group had proved and probable reserves of 4.6 MMboe in Angola which represented 1.2 per cent. of its total reserves. Production of 1.6 Mboe/d represented 3.0 per cent. of INA Group's total production in 2005. The following table sets forth INA Group's pro rata share of total proved and proved and probable reserves in Angola as of 31 December 2005.

	Proved reserves as of 31 December 2005				Proved and probable reserves as of 31 December 2005			
	Natural gas	Natural gas condensate	Crude oil	Total	Natural gas	Natural gas condensate	Crude oil	Total
	(Bcf)	(MMbbl)	(MMbbl)	(MMboe)	(Bcf)	(MMbbl)	(MMbbl)	(MMboe)
Angola	0.0	0.0	3.2	3.2	0.0	0.0	4.6	4.6

Source: Reserves Audit

The following table set forth INA Group's pro rata share of production of crude oil from Angola for the three years ended 31 December 2005 and the six months ended 30 June 2006.

	Production for the year ended 31 December			Production for the six months ended 30 June
	2003	2004	2005	2006
Crude oil (MMbbl)	0.6	0.5	0.6	N/A(1)

Note:

(1) Production figures available only annually, after lifting of field production.

Block 3 comprises three concessions, expiring between 2012 and 2025, and nine offshore fields. Blocks 3/85 and 3/91 are operated by TOTAL and Block 3/05 is operated by the Angolan national company Sonangol. INA Group holds, respectively, 5 per cent., 5 per cent. and 4 per cent. interests in the blocks. Production started in 1985, peaked in 1998 and is now in decline. Block 3 crude oil is very high quality, with an API gravity of 38° and very low sulfur content of < 0.1 per cent.

Block 3 participants are required to pay funds into an escrow account to cover abandonment costs. The payments are treated as a recoverable cost under the PSA. Of the U.S.$285 million gross cost of abandonment expected to be incurred between 2017 and 2020, U.S.$113 million has been paid into escrow by the consortium as of 31 December 2005.

INA Group also has a 7.5 per cent. interest in Block 1, where production started in 1991 and ended in 2002 due to technical problems (pipeline plugging). Field abandonment is expected in 2007 and 2008, and INA Group estimates that its share of abandonment costs will be approximately U.S.$1 million.

In May 2005, Sonangol offered INA Group the opportunity to continue production on former Block 3/80, to become 3/05, under a new contract, with a 4 per cent. share. Simultaneously, Sonangol offered INA Group the opportunity to participate in the exploration Block 3/05A. Both contracts were signed on 4 October 2005. Participants in Block 3/05A are: Sonangol (25 per cent.), SP Angolana SA (10 per cent.), China Sonangol IHL (25 per cent.), Ajoco (20 per cent.), ENI (12 per cent.), Naftagas (4 per cent.) and INA (4 per cent.).

Namibia

INA Group is the sole owner and operator of the crude oil exploration license for Block Zaris, located in the Nama Basin onshore Namibia. The license, which covers an area of 17,773 km^2, was granted on 23 November 2005 and the first exploration period will expire on 23 November 2007. The first two-year exploration period foresees 2D seismic data on at least 500 km and U.S.$1.4 million of capital expenditure.

INA will be required to relinquish 50 per cent. of its exploration license at the end of the second exploration phase and a further 25 per cent. at the end of the third phase. INA will also be required to pay land rent annually and, if a commercial discovery is made, a royalty of 5 per cent. of the hydrocarbons produced will be paid to the Namibian state.

There has been no production to date in the concession, and these provisions have therefore yet to take effect.

Finding cost data[(1)]

The following table presents the finding cost of INA Group's newly discovered hydrocarbon reserves over the years ended 31 December 2003, 2004 and 2005.

	Year ended 31 December		
	2003	**2004**	**2005**
Total expenditure (U.S.$ million)	114.9	114.5	64.2
Reserves additions[(2)] (MMbbl)	12.6	22.4	20.6
Finding costs (U.S.$/bbl)	9.1	5.1	3.1

Notes:

(1) INA Group is providing estimates of its proved and proved plus probable reserves to help investors to better understand the future potential of INA Group's fields beyond that reflected by currently booked proved reserves. INA Group cautions investors that there are significant differences in the risk of potential recovery associated with each classification. See "Reserves Information".

(2) Estimated recoverable reserves (based on well test results).

Production cost data

The following table sets forth INA Group's average realized sales price for crude oil and natural gas (taking into account sales to the Refining & Wholesale business segment), and the average crude oil and natural gas production costs for each of the years ended 31 December 2003, 2004 and 2005.

	Year ended 31 December		
	2003	**2004**	**2005**
Average realized sales price per barrel of oil (U.S.$)			
Croatia	28.9	36.8	52.3
Angola	27.4	39.7	54.6
Egypt	27.7	36.0	50.7
Syria	—	—	54.3
Average realized sales price of natural gas			
For eligible customers (HRK/Mm^3)	615	580	620
For tariff customers (HRK/Mm^3)	999	1,038	1,068
Average realized price (HRK/Mm^3)	836	830	888
Average production costs of oil and natural gas			
U.S.$/Boe — Croatia — onshore	8.7	8.7	9.3
U.S.$/Boe — Croatia — offshore	8.0	9.9	8.8
U.S.$/Boe — Egypt	18.2	8.2	8.3
U.S.$/Boe — Angola	18.9	16.9	11.7
Lifting costs (U.S.$/Boe)			
Croatia — onshore	2.3	1.4	1.5
Croatian — offshore	—	—	—
Egypt	—	2.7	3.7
Angola	—	8.9	7.7

Sales and hedging

All of INA Group's Croatian crude oil and natural gas condensate production is sold internally to the Refining & Wholesale business segment at market prices that approximate, and are based upon, international benchmarks (i.e., Dated Brent FOB), with appropriate adjustments for quality differences. Transport costs have been met by the Exploration & Production business segment since May 2006. INA Group's domestic crude oil production accounted for approximately 18.2 per cent. of total crude oil used in INA Group's refineries in 2005. This arrangement has partially protected INA Group against rising and volatile crude oil prices and provides proximity, security and reliability of supply. Overseas production of oil and natural gas condensate is sold on the international markets at the prevailing spot market prices.

All of INA Group's onshore and the majority of its offshore Croatian natural gas production is sold to distributors and direct customers in Croatia. See "— Import, distribution and sale of natural gas".

The prices at which INA Group sells its natural gas outside of Croatia are benchmarked to local prices in the relevant markets.

INA Group's policy is not to hedge its exposure to fluctuations in sales prices of crude oil and natural gas.

Import, distribution and sale of natural gas

The Exploration & Production business segment manages, in addition to exploration and production activities related to natural gas, all activities related to import, storage, treatment and sale to wholesale customers of natural gas in Croatia. In the year ended 31 December 2005, INA Group sold 97.2 Bcf of natural gas domestically, primarily to distributors and direct commercial customers. INA Group is not involved in natural gas transmission, which is performed by Plinacro, or in retail sales of natural gas.

The following table sets forth the sources of the total amount of natural gas that INA Group sold in Croatia for each of the years ended 31 December 2003, 2004 and 2005.

	Year ended 31 December		
	2003	2004	2005
	(all data in Bcf)		
Onshore production	53.3	53.2	49.2
Offshore production	12.0	12.1	15.7
Total production	65.3	65.3	64.8
Imports	40.1	37.2	39.9
Natural gas from/to storage	(3.6)	3.7	(2.2)
Less: internal consumption and losses	(5.1)	(4.3)	(4.8)
Less: losses in the network	(0.9)	(0.6)	(0.5)
Total sales	95.8	101.3	97.2

For the year ended 31 December 2005, INA Group's production of natural gas from INA's onshore and offshore Croatian fields accounted for approximately 59 per cent. of total natural gas demand of the country, with the remainder being imported from the Russian Federation. Decreasing production from onshore fields has been in part offset by increased activity at the offshore Adriatic fields, but, from 2009, Croatian natural gas production, based on proved reserves as of 31 December 2005, is expected to decline, and INA Group will become more dependent on imported natural gas. Based on probable reserves, the decline is not expected to commence until 2013.

INA Group's portion of natural gas produced by the Adriatic fields is currently shipped to Italy where it is injected into the Italian transport network. INA has signed a swap agreement with ENI, effective from 1 January 2005, whereby a volume of natural gas equivalent to its share of production is supplied by ENI through the SOL pipeline in Austria, and is then transported through Slovenia to the Croatian network. Works are in progress to directly connect all of INA Group's North Adriatic offshore natural gas fields to the Croatian inland network. This also requires Plinacro, the owner and operator of the natural gas transportation network, to build an approximately 400 km onshore pipe from Pula to Karlovac. All of these works are expected to be completed by the end of 2006 and natural gas will then be transported directly. See also "— Croatia — Offshore".

On 1 July 2005, INA signed a new contract, valid until 31 December 2010, for the continuous annual supply of 1.2 bcm (42.4 Bcf) of natural gas from the Russian Federation, with Gazexport, a subsidiary of Gazprom. Either contract party may request revision of the contract price, including the base price, to be mutually negotiated and agreed, but not earlier than three years after the date of the last request. The average cost of natural gas that INA

Group imported in the year ended 31 December 2005 was U.S.$0.22536/m^3 (U.S.$6.40/mcf). INA takes delivery of natural gas from Gazprom at the Ukraine-Slovak border and it has to pay transit fees on a ship-or-pay basis at a flat rate for use of the pipeline networks in the Slovak Republic, Austria and Slovenia. The contract of use of the networks in Slovakia expires in 2010, in Slovenia in 2015 and in Austria in 2017. Discussions with MOL have also started regarding the construction of a new pipeline through Hungary, in order to meet growing demand for natural gas expected in the future and reduce transit fees paid to operators of foreign transport networks, by reducing the length of the import route from Russia.

All natural gas that INA Group produces or imports is injected into the network of Plinacro, the owner and operator of the Croatian high pressure natural transportation system. INA had a transportation contract with Plinacro which expired on 31 December 2004. A new contract has been prepared, and was signed in September 2006. INA Group does not use the full capacity of the network. INA Group pays transportation tariffs directly to Plinacro, and thereafter collects transportation tariffs from its customers.

INA owns and operates the only Croatian natural gas storage facility, located in Okoli, 55 km south-east of Zagreb. The facility, which uses a depleted natural gas and condensate field, was commissioned in 1987 and has an overall capacity of 19.7 Bcf with maximum injection of 134 Mcf/day and withdrawal of 177 Mcf/day. The facility also provides storage services to the Slovenian company Geoplin on the basis of a contract expiring in 2010, providing for a minimum take-or-pay capacity of 1.765 Bcf, with the option for an additional 1.059 Bcf of capacity, at a fee of EUR 0.05 for each cubic meter withdrawn (EUR 1.40 per thousand cubic feet). Geoplin's use of the storage facility varies on a seasonal basis. In the last three years, Geoplin used, on average, 50 Mcm (1.765 MMcf) of capacity. INA Group is currently reviewing the possibility of expanding its storage capacity, due to expected increases in natural gas consumption in the future, either by expanding the capacity of the Okoli facility or by exploiting other depleted fields which it has already identified.

Customers and pricing

There are two types of natural gas customers in Croatia: (i) tariff customers and (ii) "eligible customers" who can freely negotiate their natural gas contracts with a chosen supplier (although INA is currently the only licensed supplier in Croatia) and are allowed to negotiate a different price from the tariff rate. See "Regulation — Croatia — Industry regulation — Regulation of the natural gas sector — Natural gas transportation".

Approximately 47 per cent. of INA Group's natural gas sales are to tariff customers, which are mainly composed of the 38 local distribution companies operating in Croatia that supply households and direct industrial customers connected to their own distribution grids. Prices are determined pursuant to the tariff system adopted by the Government on the basis of a formula that, taking into account purchase prices for imports and the production costs of natural gas, results in a tariff significantly below international market prices. Changes in natural gas prices are subject to the *ex ante* evaluation of HERA, and HERA is responsible for day-to-day regulatory oversight of household natural gas tariffs. A 7 per cent. price increase in April 2004 was awarded to INA after four previous unsuccessful applications. The increase took effect on 1 May 2004. In 2005, the average price at which INA Group sold natural gas to distributors and direct industrial customers was HRK 1.07/m^3 (or EUR 0.15/m^3). HERA disagreed with a 16 per cent. price increase proposed by INA for the third quarter of 2005. A new application has recently been made.

The remaining 53 per cent. of INA Group's natural gas sales (in 2005) were to eligible customers, which are principally state-owned or majority state-owned or controlled companies. In the current market environment, they are able collectively through State Influence, to exert price pressure on INA, both to obtain required supplies and as regards prices. Eligible customers are HEP (the Croatian state electricity company), which accounted for approximately 39 per cent. of eligible customers natural gas consumption) Petrokemija d.d. Kutina (a fertilizer producer), PLIVA d.d. (a pharmaceutical company) and Valjaonica Cijevi Sisak d.o.o. (a steel works company). Their terms are based on individual contracts which usually result in discount-to-market rates, although INA Group expects convergence with market prices in the future. In 2005, the average price at which INA Group sold natural gas to eligible customers was HRK 0.62/m^3 (or EUR 0.08/m^3), which was 42 per cent. below the average market/tariff price for the period. Negotiations with the Government on increasing the sales price for HEP and Petrokemija d.d. Kutina have already commenced but, depending on the outcome of these, their contracts may continue on the basis of the current, preferential rates. Tariff system for determination of the transportation fees is determined by HERA, while the tariff rates are set by the Government, and, each year, tariffs are published in the Official Gazette and on the website of Plinacro. These tariffs are charged by INA Group to its tariff customers. Eligible customers may negotiate their own transportation costs with Plinacro, although, to date, these customers have relied on INA Group to negotiate and pay these costs on their behalf. INA Group then charges these costs back to its customers.

LNG project

INA Group is currently participating in a project for the construction of a regasification terminal in the North Adriatic. Adria LNG Study Company ("ALSCo"), which is jointly owned by RWE-Transgas, OMV, TOTAL, E. On and INA, was established with the aim of carrying forward all preparatory studies.

The build-up of the terminal is forecast to occur in two phases. In the first phase, natural gas is expected to be processed at a rate of 176.5 Bcf/year. This is to be increased in the second phase from 353 to 494 Bcf/year. The terminal is expected to become fully operational in the years 2012 to 2013.

INA Group's ownership, as well as INA Group's share of capacity of the terminal, is equal to 10 per cent.

Crosco

The Exploration & Production business segment includes Crosco d.o.o. ("Crosco"), a wholly-owned subsidiary of INA to which INA's drilling and related activities were transferred in 1996. Crosco operates on an arm's length basis, providing oil field services to INA Group (approximately 30 per cent. of its sales in 2005) and third parties.

Crosco's principal activities comprise oil and natural gas drilling, workover and well completion activities, well testing, coil tubing and nitrogen work, well logging, drill maintenance and geoservice activities. Crosco's fleet consists of one semi-submersible offshore drilling platform, one jack-up offshore drilling platform, 13 onshore drilling rigs, 27 workover rigs, more than 30 other special units for oil field services and 25 different geoservices units. Crosco has offices in Croatia as well as in North Africa, the Middle East, Hungary and Italy. The company had a total of 2,231 employees as of 31 December 2005.

Refining & Wholesale

Overview

The Refining & Wholesale business segment refines crude oil and other feedstocks into petroleum products. Products produced by INA Group's refineries, as well as imported refined products, are distributed to INA Group's retail business segment and to industrial and wholesale customers in Croatia and other Central and South-Eastern European countries such as Bosnia and Herzegovina, Slovenia, Montenegro, Macedonia and Serbia and sold on the Mediterranean spot markets. INA Group also operates two facilities for production of lubricants, motor oils and other products, with a combined annual capacity of 465,000 tonnes.

This business segment contributed HRK 399 million, or 19.7 per cent., and HRK 28 million, or 2.8 per cent., in the year ended 31 December 2005 and the six months ended 30 June 2006, respectively, to INA Group profit from operations before Corporate and Other overheads and other losses. As of 30 June 2006, the business segment had 2,839 employees. With effect from 1 November 2006, the name of the business segment will be changed to "Refining & Marketing". This change reflects alterations to reporting lines and certain other organizational changes within the business segment, which are aimed at improving the business segment's efficiency and its compatibility with the new SAP-based integrated IT system that INA is implementing.

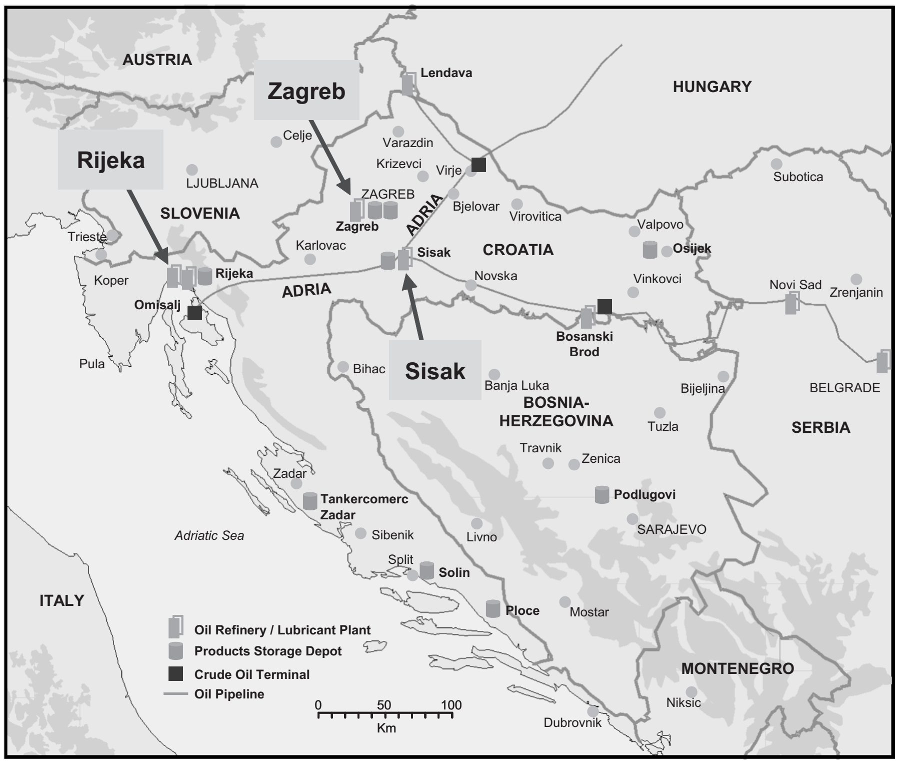
INA owns and operates the only two fuel refineries in Croatia, which are located in Rijeka, on the north-west Adriatic coast, and Sisak, in central northern Croatia. As at 31 December 2005, the aggregate total CDU capacity of these two facilities was 8.5 MMt/y, while crude oil throughput was 4.9 MMt/y. Total oil throughput of the two refineries is expected to increase to 7.7 MMt/y, following the completion of the refinery modernization program. After modernization, INA Group will be able to meet all the expected demand in the Croatian market for refined products, including for EURO V products, and will be in a position to service its growing retail networks and its wholesale customers in its Core Region and export additional product on the spot market. In addition, after the modernization, INA Group expects that Rijeka and Sisak together will be able to be supplied with approximately 90 per cent. imported REB (or crude oil of a similar quality), and approximately 10 per cent. domestic crude). The refineries have a total crude oil storage capacity of 761,000 m^3 (4.8 MMbbl) and storage capacity for intermediate and finished products of 1,500,000 m^3 (9.4 MMbbl).

The Rijeka refinery processes REB, as well as a number of lighter, sweet foreign crudes, such as Syrian light and Siberia light, all purchased on the spot market. The Sisak refinery, located close to the Sava depression, processes all of INA Group's domestic production of crude oil, which constitutes approximately 50 per cent. of Sisak's crude oil requirements, as well as REB. In 2005, domestic crude oil production accounted for approximately 18 per cent., and REB for approximately 67 per cent., of crude oil supplies used by both refineries. Both refineries can be regarded as semi-complex. See "The Oil and Gas Industry — Refining Industry — Refinery configuration and complexity".

INA owns a plant in the Mlaka district of Rijeka, known as Maziva Rijeka, and, through its subsidiary Maziva-Zagreb d.o.o., a facility in the industrial zone of Zagreb. The Maziva Rijeka plant is focused on the production of motor oils, base oils, industrial lubricants, waxes, bitumen and fuel oil, and is a major supplier of these products in Croatia. The Zagreb plant's main activities are the production of lubricants and greases for industry, additives and related products.

INA Group distributes its refined products by ship, road and rail, and to nearby power plants by pipeline. INA Group's distribution infrastructure includes, in addition to the storage facilities at its refineries, seven major storage depots with a combined capacity of 259,300m^3 (1.6 MMbbl) and a fleet of rail tank cars and road tankers. Wholesale sales of 3.0 MMt of product were made to the domestic market, and a further 1.9 MMt were sold to export markets in the year ended 31 December 2005.

The locations of INA Group's principal Refining & Wholesale assets are illustrated in the map below.



Refining operations

Oil refining operations in Croatia started in 1883 at what is now the Maziva Rijeka site in Rijeka. Fuel production was later moved to the current Rijeka refinery site in 1965 and the Maziva Rijeka plant became a lubricants plant. The Sisak refinery in northern Croatia was constructed in 1927, following the development of the Sava depression oil fields. Lubricants production at Maziva Zagreb originates from two factories: the Iskra chemicals factory, which started operations in 1927, and the Olex Oil Refinery at Sv. Klara, which started operations in 1933. These factories were integrated in 1962, and operations were moved to a new site at Žitnjak in Zagreb in the late 1960s.

The two refineries were modernized and expanded throughout the 1970s, 1980s and 1990s. However, the break-up of Yugoslavia and the consequent reduction in economic activity and demand for refined products, combined with limited export opportunities due to increasingly stringent EU specifications, led to a period of over-capacity and low utilization of INA's refineries. Aggregate production for both refineries has varied between 5.0 MMt/y and 5.3 MMt/y during the three-year period ended 31 December 2005.

INA is in the process of implementing a refinery modernization program which it presently estimates will cost approximately U.S.$1.1 billion from 2006-2011, to increase INA Group's profitability by maximizing the amount of Eurograde products that can be produced, increase operational capacity, improve overall efficiency and comply with EU environmental standards. The modernization program includes the addition of residual upgrading units and other equipment designed to improve product quality and product yield, and thus refining margins. Aggregate production for both refineries following the modernization program is expected to increase to approximately 7.0 MMt/y of refined products.

In addition, due to high levels of demand for EU quality refined product, which cannot currently be met by INA's refineries, the Refining & Wholesale business segment imports refined products, particularly diesel and gasoline, at international market prices. The table below sets forth the amounts of refined product imported by the business segment in the three years ended 31 December 2005 and the six months ended 30 June 2006.

	Year ended 31 December			Six months ended 30 June
	2003	2004	2005	2006
		(tonnes)		
EURO III/IV gasoline[1]	—	28,357	115,005	87,338
Aviation gasoline	858	827	996	553
JET A-1	—	—	1,510	11,616
EURO III/IV diesel[1]	190,388	234,023	238,292	158,522
Total refined product imported	191,246	263,207	355,803	258,029

Note:

(1) EURO III to 1 July 2005 and thereafter EURO IV.

Rijeka refinery

The Rijeka refinery is located on the Adriatic coast, 12 km east of Rijeka and is a medium-sized refinery with access to a deep-sea port and the Adriatic pipeline system. The refinery processes only imported crude oil, such as REB, which is generally a medium-density, sour crude oil, as well as a number of lighter foreign crudes, notably Syrian light and Siberia light, bought on the spot market. The refinery configuration and current product specifications allowed the refinery to process up to 75.6 per cent. high sulfur crude oil (average 1.3 per cent. sulfur) in the year ended 31 December 2005.

Presented below are certain key statistics for the Rijeka refinery for the three years ended 31 December 2005.

	Year ended 31 December		
	2003	2004	2005
CDU capacity (MMt/y)	4.5	4.5	4.5
— Utilisation (per cent.)	75.4%	74.8%	71.6%
Conversion capacity (MMt/y)	3.8	3.8	3.8
— Utilisation (per cent.)	89.2%	88.6%	84.8%
Total production (MMt/y)	3.4	3.4	3.2
Margins and costs (U.S.$/bbl)			
— Refining and wholesale margin	6.2	12.1	8.6
— Refining margin	3.7	7.1	5.4
— Average crude costs	28.5	35.2	49.3
— Cash operating costs	3.1	3.8	3.2

The decline in utilization levels in 2005 was principally due to unplanned stoppages for equipment repair. The ratio of the Rijeka refinery's conversion capacity to CDU capacity for the year ended 31 December 2005 was 84 per cent. Conversion capacity is a key determinant of a refinery's CDU utilization.

The refinery's complexity is currently 5.6 as measured by the Nelson complexity index. See "The Oil and Gas Industry — Global Oil Refinery Industry — Refinery configuration and complexity".

Key units include a crude oil distillation unit, a vacuum distillation unit, an FCC unit, a visbreaker unit, two semi-regenerative reformer units, an isomerization unit and a combined mild hydrocracker/desulfurization unit.

The following table sets forth the main process units of the refinery, their current capacity, licensor and process designer, start-up years and years of major modifications.

Process Unit	Current capacity (Mt/y)	Licensor/ Process designer	Start-up year	Year of major modifications
Crude oil distillation unit III	4,500	INA	1977	1997
Vacuum distillation	1,700	UOP	1981	n/a
Catalytic reforming I	163	UOP	1965	n/a
Catalytic reforming II	560	UOP	1970	n/a
FCC	1,000	UOP	1981	2006
Visbreaking (previously thermal cracking)	600	IFP	1994	n/a
Distillate desulfurization	141	UOP	1967	2006
HDS/MHC	1,040/560	IFP	1997	2005
Claus sulfur recovery unit (reconstructed)	20	Lurgi	1981/1997	1997
Isomerization	233	BP	1973/1985	2005
DIP (isomerization first section)	315	INA	2004	n/a
Reformate splitter	438	INA	2001	2004
Bender	105	Petreko/Snam	1965	n/a

The competitive advantage of the Rijeka refinery is its geographic location at the port of Rijeka in the North Adriatic. The refinery is linked by a 7 km subsea pipeline to the Omišalj Oil terminal on the island of Krk, both of which are owned by JANAF. The Omišalj Oil terminal can be supplied by tankers up to 500,000 tonnes. There is also a crude oil delivery facility for ships up to 250,000 tonnes to deliver directly to the refinery site. The refinery has well developed loading facilities and seven crude oil storage tanks with a total storage capacity of 396,000 m^3 (2.5 MMbbl), equivalent to 30 days' processing at minimum capacity.

Finished products are sent to storage tanks in the refinery and then loaded to transport facilities. The refinery has 161 tanks for crude oil, refined products and intermediates. Products are dispatched from the refinery by rail, road and ship and to nearby power plant by pipeline. The refinery is connected to the local ports of, Bakar for loading and unloading of products and feedstock of up to 45,000 tonnes, Sršćica, an LPG port that can accommodate ships of up to 3,000 tonnes and Urinj, which is used for loading virgin naphta and FCC gasoline.

The Rijeka refinery is ideally situated to provide exports to neighboring countries and the Mediterranean markets. The Rijeka refinery produces primarily LPG (6.1 per cent. of production in 2005), gas oils and jet fuel (32.8 per cent. of production in 2005), gasoline (24.2 per cent. of production in 2005) and fuel oils (19.5 per cent. of production in 2005). Other products include intermediate products and feedstocks. The following table sets forth the throughput and production by product of the Rijeka refinery for the years ended 31 December 2003, 2004 and 2005 and the six months ended 30 June 2006.

	Year ended 31 December			Six months ended 30 June
	2003	2004	2005	2006
	(in tonnes)			
REB	1,700,745	2,247,811	2,359,585	928,801
Syria light	1,153,933	538,998	484,069	9,479
Lybia es sider	79,464	79,644	79,669	0
Siberian light	148,715	219,054	199,276	121,403
Other crudes	76,185	75,993	0	1,700
Other feedstocks	231,916	207,559	98,581	18,843
Total throughput	3,390,958	3,365,756	3,221,178	1,080,225
LPG	208,895	195,205	196,714	51,621
Virgin naphtha	104,467	105,078	88,462	27,899
Gasoline	831,613	815,234	778,276	217,488
Jet fuel	72,614	90,154	99,155	25,494
Gas oil	1,230,056	1,136,713	957,415	296,320
Fuel oil	541,714	551,765	627,052	208,224
Sulfur	7,471	8,463	8,133	2,033
Atmospheric residue	28,424	89,143	133,264	97,084
Other	24,300	43,977	3,008	43,134
Total production	3,049,559	3,035,737	2,891,482	969,297(1)
Consumption and losses	341,399	330,019	329,696	110,928

Note:

(1) Six-month figures affected by planned turnaround of 45 days.

The Rijeka refinery started to produce EURO IV products in December 2005. For the six months ended 30 June 2006, total EURO IV-compliant production was 130,000 tonnes, which accounted for approximately 24 per cent. of the refinery's production of gasoline and 48 per cent. of its production of diesel in that period.

INA Group has made a number of investments since 2000 to improve the quality of fuels produced at the Rijeka refinery and thus improve the refinery's profitability. Part of the existing aromatics facilities were reconstructed into a reformate splitter in 2001 and 2004, and the deisomerizer was revamped in 2004 in order to significantly increase production of EURO IV and, in the future, EURO V gasoline.

The Rijeka refinery plans for a major maintenance turnaround once every three years. These turnarounds typically require the refinery to shut down for 20-30 days. INA Group has recently completed the 2006 turnaround, which lasted 45 days. The longer than planned turnaround period was due to the need to replace the reactor in the FCC unit, which was carried out to further improve gasoline quality. The next planned turnaround at Rijeka refinery is scheduled for 2009.

In 2006, INA also expects completion of the reconstruction of the existing distillate desulphurization unit, which is expected to increase production capacity of high quality middle distillates by 65.7 Mt/y.

Modernization program

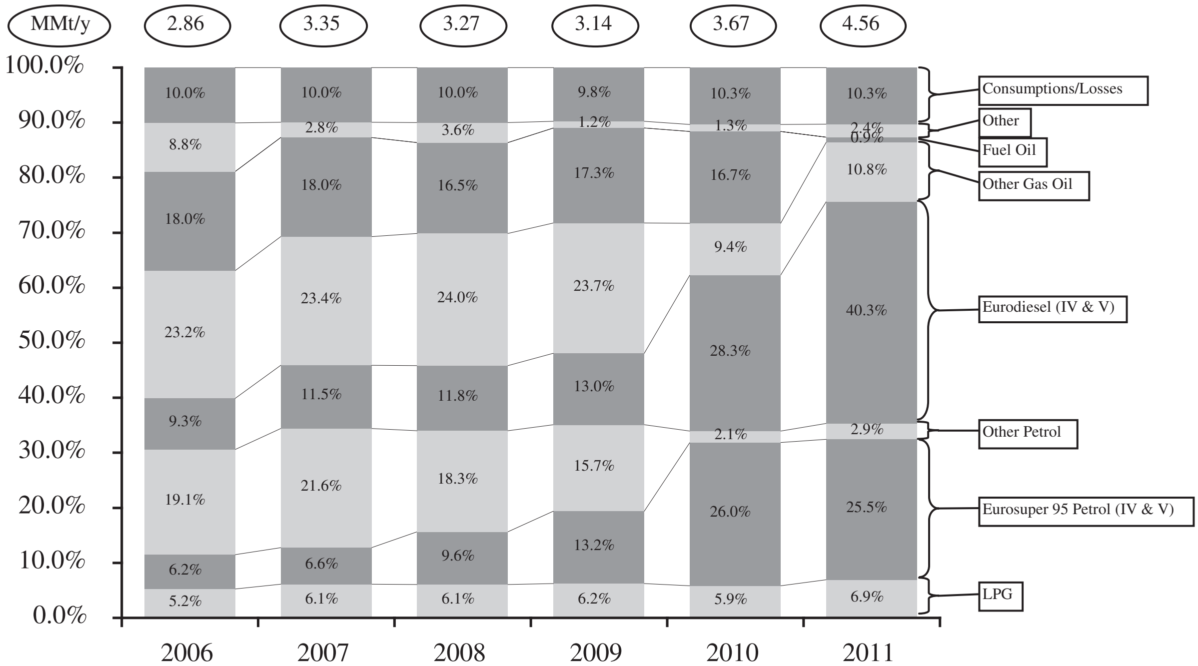
INA Group is currently implementing a major modernization program at the Rijeka refinery as part of its overall refinery modernization program. The principal purpose of this program is to produce more Eurograde products to increase operating throughput. ABB Lummus group completed the basic design and the front-end engineering design (FEED) in Spring 2006.

As part of this modernization, INA intends to build the units set forth below, the first two of which are expected to have been contracted by the end of 2006 or the first quarter of 2007.

Unit	Capacity	Expected onstream
Hydrocracking	1,750,000 T/y	2009
Hydrodesulfurization	860,000 T/y	2009
Sulfur recovery unit	65,000 T/y	2009
Hydrogen generation unit	81,000 m^3/h	2009
Residue upgrading unit	1,000,000 T/y	2011

The new units coming onstream in 2009 will enable the refinery to produce all motor fuels to EURO V specifications and to increase throughput. The residue upgrading unit planned to come onstream in 2011 will virtually eliminate the production of low-margin fuel oil and increase the yield of Eurograde products to over 60 per cent. of the total product slate and further increase throughput. After completion of the modernization program in 2011, the Rijeka refinery is expected to have a Nelson complexity of approximately 9.5.

Overall, the upgrade will increase the value of the refinery's product slate and ensure Rijeka's production is more in line with product demand. The following table illustrates expected annual throughput and the increasing proportion of the refinery's product slate expected to be represented by Eurograde products from 2006 to 2011.



Sisak refinery

The Sisak refinery is located 50 km from Zagreb, the main consumption center in Croatia, and is also well located to serve other local markets in Croatia and north-western parts of Bosnia and Herzegovina, the north-eastern part of Slovenia and western and northern Serbia. The refinery configuration and current product specifications allow the refinery to process up to approximately 51 per cent. high sulfur crude oil. The refinery processes all of the crude oil from INA Group's production in Croatia and imported REB. Processing INA Group's domestic onshore crude production has partially protected the Refinery and Wholesale business segment against rising and volatile crude oil prices and provides proximity, security and reliability of supply.

Presented below are certain key statistics for the Sisak refinery for the three years ended 31 December 2005.

	Year ended 31 December		
	2003	2004	2005
CDU capacity (MMt/y)	4.0	4.0	4.0
— Utilisation (per cent.)	43.5%	49.1%	43.6%
Conversion capacity (MMt/y)	2.2	2.2	2.2
— Utilisation (per cent.)	79.1%	89.3%	79.3%
Total production (MMt/y)	1.7	2.0	1.7
Margins and costs (U.S.$/bbl)			
— Refining and wholesale margin	2.4	8.8	6.4
— Refining margin	(0.1)	3.2	1.9
— Average crude costs	29.5	36.2	51.3
— Cash operating costs	4.5	4.5	5.7

The decline in utilization levels in 2005 was principally due to a major maintenance turnaround as well as unplanned stoppages. The ratio of the Sisak refinery's conversion capacity to CDU capacity in 2005 was 55 per cent. As the Sisak refinery is currently configured, this ratio is sufficient to utilize most of the refinery's conversion capacity. The refinery's complexity is 6.1 as measured by the Nelson complexity index. See "The Oil and Gas Industry — Global Oil Refining Industry — Refinery configuration and complexity".

Key units include crude oil distillation unit, an FCC unit, a coker and desulphurization units, reformer, calciner and a bitumen unit. The following table sets forth the main process units of the refinery, their current capacity, licensor and process designer, start-up years and years of major modifications.

Process Unit	Current capacity (thousand tonnes/y)	Licensor/ Process Designer	Start-up year	Year of major modifications
Crude oil distillation unit 6	4,000	INA	1979	1998, 2005
Vacuum distillation unit	850	UOP/INA	1989	2005
FCC	500	UOP/Foster Wheeler	1980	2003
Reformer and HDS 301	680	UOP/Foster Wheeler	1971	1980
HDS 300	163	UOP/Foster Wheeler	1964	2004
HDS 500	270	UOP/Foster Wheeler	1967	2004
HDS 5300	150	UOP/Foster Wheeler	1967	2006
PSA	8,000(1)	UOP	2005	n/a
Coker	270	UOP/Foster Wheeler	1967	2006
Calciner	70	Neirpic/Foster Wheeler	1967	n/a
BTX	423	UOP/Foster Wheeler	1986	n/a
Bitumen	200	BP/Foster Wheeler	1980	n/a

Note:

(1) Nm^3/h.

Domestic crude oil is supplied by the Exploration & Production business segment and is delivered by pipeline and barges at the nearby Crnac port on the Sava river. Imported crude oil can be transported from the Mediterranean via the Omišalj Oil terminal and the Adriatic pipeline system. Russian crude oil can be delivered to the refinery via the Adriatic and Družba pipelines. The refinery has nine crude oil tanks with a total of 365,000 m^3 (2.3 MMbbl) capacity, equivalent to 30 days' processing at minimum capacity. Products are stored in tanks which are used both for intermediate and finished products. The refinery has 95 refined product tanks for products and intermediates with a total capacity of 0.9 million m^3. Products are dispatched from the refinery by rail or road or ship. Total shipping capacity is 8,000 T/d.

The Sisak refinery produces mainly LPG (5.4 per cent. of production in 2005), gas oils (37.3 per cent. of production in 2005), gasoline (22.4 per cent. of production in 2005) and fuel oils (10.4 per cent. of production in 2005). Other products include bitumens, coke, intermediates and feedstocks. The following table sets forth the throughput and production by product of the Sisak refinery for the years ended 31 December 2003, 2004 and 2005 and the six months ended 30 June 2006.

	Year ended 31 December			Six months ended 30 June
	2003	2004	2005	2006
	(in tonnes)			
Domestic	1,001,729	934,750	855,043	448,190
REB	584,985	983,020	876,056	581,510
Syria Light	122,658	0	0	0
Other feedstocks	30,328	47,672	12,692	48,951
Total throughput	1,739,700	1,965,442	1,743,791	1,078,650
Petrochemical products	(488)	4,989	3,092	0
Gasoline	489,735	540,218	478,232	284,061
Jet fuel	2,604	1,779	(49)	11
Gas oil	643,263	735,277	650,227	402,337
Fuel oil	149,214	136,689	180,532	130,912
Bitumen	51,913	101,789	53,011	44,088
Coke	39,071	42,038	33,457	28,047
LPG	95,273	103,358	93,751	63,341
Kero	433	159	134	46
Intermediaries	22,716	22,267	17,193	3,782
Total production	1,493,734	1,688,563	1,509,580	956,623
Consumption and losses	245,966	276,879	234,211	122,027

The Sisak refinery began to produce EURO IV motor fuels in December 2005. For the six months ended 30 June 2006, total EURO IV-compliant production was 198,000 tonnes, which accounted for approximately 32 per cent. of the refinery's production of gasoline and 42 per cent. of its production of diesel.

INA Group has made a number of investments since 2000 to improve the quality of the fuels produced at Sisak. In 2004, the refinery converted its existing but non-operational catalytic reforming facilities and reconstructed one of its HDS units for the production of EURO IV diesel.

The Sisak refinery plans for a major maintenance turnaround once every three years. These turnarounds typically require the refinery to shut down for 20-30 days. The next planned turnaround at the Sisak refinery is scheduled for 2008.

Modernization program

INA Group is currently implementing a major modernization program at the Sisak refinery as part of its overall refinery modernization program. See "Risk Factors — Risks Relating to INA Group's Business — INA Group's refineries require modernization and expansion". The strategic rationale behind this investment is that the Sisak refinery is needed to process domestic crude oil, which Rijeka is not positioned to do. In addition, analyses indicate that overall demand in the Croatian market is best served by two refineries, and the Sisak refinery is in a strategic location to serve important strategic markets such as the Zagreb region, Slavonija and other markets that INA Group is targeting for its exports, such as Bosnia and Herzegovina, Montenegro and Serbia. The principal purpose of this program is to produce a higher proportion of Eurograde products, increase operational capacity and reduce the yield of low-margin fuel oil. After expected completion of the modernization program in 2011, the Sisak refinery is expected to have a Nelson complexity of approximately 9.5. ABB Lummus group completed the basic design and the front-end engineering design ("FEED") in 2004.

As part of this modernization, INA Group intends to build the units set forth below.

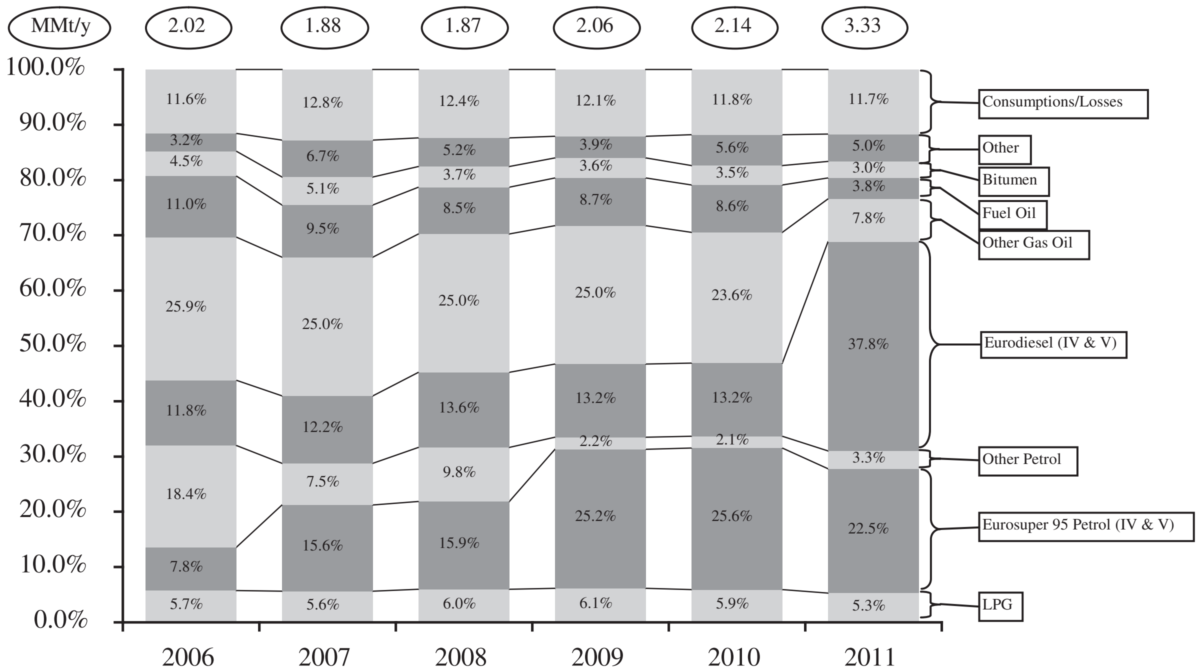
Unit	Capacity	Expected onstream
ReconstructionR-5301	150,000 T/y	2007
PSA	21,000 Nm^3/h	2007
Sulphur recovery unit (first phase)(1)	22,100 T/y	2007
HDSFCC gasoline	270,000 T/y	2008
Izomerization	280.000 T/y	2008
Revamp delayed coking	400,000 T/y	2010
Revamp vacuum unit	1,250,000 T/y	2011
Hydrocracking	1,000,000 T/y	2011
Hydro desulfurization	1,000,000 T/y	2011
Sulfur recovery unit (second phase)(1)	22,100 T/y	2011
Hydrogen generation unit	50,000 Nm^3/h	2011

Note:

(1) Sulphur recovery unit to be completed in two stages by 2011 with a total capacity of 44,200 T/y.

The new units expected to come onstream in 2007 and 2008 are already under contract and will enable the refinery to produce gasoline to EURO V specifications and to increase throughput. Those coming onstream in 2011 will increase crude oil throughput to 3.2 MMt/y, and increase the yield of Eurograde products to over 60 per cent. of the total product slate.

Overall, the upgrade will increase the value of the refinery's product slate and ensure Sisak's production is more in line with product demand. The following table illustrates expected annual throughput and the increasing proportion of the refinery's product slate expected to be represented by Eurograde products from 2006 to 2011.



Maziva Rijeka lubricants plant

The Maziva Rijeka lubricants plant is currently located within the Mlaka district in the town of Rijeka, near a well-sheltered harbor, which enables sea transport to and from the lubricants facility. It also benefits from good road and rail connections. The facility mainly produces base oils, motor oils, lubricants, waxes, bitumen and fuel oil. Products are sold domestically (with a 40 per cent. market share in 2005 of motor oils sales) or exported to CEE and Mediterranean markets.

Feed to the plant is mostly atmospheric residue which is purchased on international markets or supplied by the Rijeka refinery and transported by coastal tankers from port and storage facilities at the Rijeka refinery to the Mlaka harbor. As of 1 August 2006, the Maziva Rijeka plant is buy managed and operated in an integrated manner with the Rijeka refinery and its production facility will ultimately relocate to the same site as the fuel refinery.

The following table sets forth total throughput and production by principal product of the Maziva Rijeka plant for the years ended 31 December 2003, 2004 and 2005 and the six months ended 30 June 2006.

	Year ended 31 December			Six months ended 30 June
	2003	2004	2005	2006
		(in tonnes)		
Atmospheric residue	360,114	275,858	330,560	127,880
Other feedstocks	6,429	21,563	20,775	29,411
Total throughput	366,543	297,421	351,335	157,290
Motor and industrial oil	12,446	12,428	11,659	5,402
Base oils	34,616	32,457	36,439	7,570
Paraffin waxes	8,038	8,964	7,419	3,152
Bitumen	161,229	115,455	127,727	49,048
Spindle oil	2,110	4,893	9,127	6,577
Fuel oil	84,544	79,547	108,465	51,028
Other	2,940	4,570	5,099	2,563
Components and intermediates	19,518	12,462	5,733	12,510
Total production	325,441	270,776	311,663	137,850
Consumption and losses	41,102	26,645	39,668	19,440

Maziva Zagreb blending and packaging facility

The Zagreb plant, produces a wide range of lubricants and related products for industrial uses, automotive and industrial lubricating greases and specialty oils and fluids for automotive applications. It is located in the industrial zone of Zagreb, close to the markets with the strongest demand, and is connected by rail and road transportation routes to Croatian and export markets. The plant's feedstock consists primarily of base oils produced by the Maziva Rijeka plant. Additives are mostly imported, but can also be produced on-site. Other chemicals are supplied from other Croatian producers or are imported. All feedstock is supplied by road or rail.

In addition to serving the domestic markets, products are exported to central and eastern European markets, including Albania, Austria, Belarus, Bosnia and Herzegovina, Hungary, Macedonia, Montenegro, Romania, Russia, Serbia, Slovakia, Slovenia and Ukraine. From the beginning of 2006 the export of base and industrial oil products from the Maziva Rijeka plant are being made through Maziva Zagreb export division.

The following table sets forth total production by principal product for the years ended 31 December 2003, 2004 and 2005 and the six months ended 30 June 2006.

	Year ended 31 December			Six months ended 30 June
	2003	2004	2005	2006
		(in tonnes)		
Specialty automotive oils and fluids for engines and other applications	5,200	5,300	5,500	1,850
Lubricants and related products for industrial use	5,749	5,202	5,171	2,292
Metalworking oils and fluids	310	370	330	161
Temporary corrosion preventers	17	20	20	10
Automotive and industrial lubricating greases	973	1,100	1,179	466
Additives, including viscosity improvers	1,060	1,155	1,254	333
Other	747	890	799	341
Total production	14,056	14,037	14,253	5,453

Supply Chain Management

The Supply Chain Management ("SCM") function plays a pivotal role in the Refining & Wholesale business segment by coordinating planning for the sourcing of all hydrocarbons. This function is responsible for planning supply for the refineries, planning and optimizing refinery production and sales.

Following a decision of the Management Board, the Refining and Wholesale business segment has issued tender invitations for plans to a long-term contract for the purchase of crude oil under which 60 per cent. of total planned imported oil quantities will be purchased. It is expected that the contract will be entered into by the end of 2006, for a period of at least 2 years, with a possible extension of another 2 years.

The Management Board made this decision on the basis of market research, which suggested that the supply of crude oil to the Rijeka and Sisak refineries on the basis of spot purchases (tender invitations) does not provide the refineries with enough certainty of supply, especially given INA's plans for growth and development.

This combination of long-term contracting and short-term purchase will enable INA to manage its crude oil supply better, as well as to mitigate its exposure to volatile market prices.

Wholesale, marketing and distribution

INA Group's wholesale and distribution operations manage the link between INA Group's refinery production and its wholesale customers and retail network (other than for the Maziva Zagreb blending and packaging facility owned by INA's subsidiary Maziva-Zagreb d.o.o., which performs its own marketing). The overall objectives of INA Group's wholesale operations are to maintain domestic market share, further penetrate export markets and exploit other new marketing opportunities. In the year ended 31 December 2005, INA Group's Refining & Wholesale business segment sold 4.9 MMt of refined oil products. A total of 3.0 MMt, or 62 per cent., of total sales were marketed on the Croatian market, giving INA Group a share of 80 per cent. of the Croatian wholesale market in 2005.

Approximately 45 per cent. of the Refining & Wholesale business segment's domestic sales are made to the Retail business segment and INA's subsidiaries with retail businesses.

The remaining domestic sales are to major wholesale customers in Croatia, such as the Croatian Railway Company, Petrokemija d.d. Kutina (a fertilizer producer), HEP and the Croatian Ministry of Defense, as well as wholesale buyers. Most of the products sold to these customers are fuel oils and gas oils. The majority of these products are not subject to fuel pricing regulations, and prices are subject to bilateral negotiations. Sales to INA Group's 10 largest wholesale customers in 2005 amounted to 33 per cent. of total domestic sales or approximately 50 per cent. of wholesale sales on the domestic market.

INA Group sells LPG produced by both INA's refineries and its Exploration & Production business segment. Approximately 60 per cent. of INA Group's LPG is sold in export markets. The remainder is sold domestically, primarily by INA's wholly-owned subsidiary, Proplin, to retail customers through the Retail business segment's petrol stations and other retail outlets in Croatia. The Refining & Wholesale business segment also manages imports of fuels as required. In 2005, INA Group imported 355.8 Mt primarily Eurograde of refined products to meet market demand. The following table sets forth INA Group's total sales by country for the years ended 31 December 2003, 2004 and 2005 and the six months ended 30 June 2006.

	Year ended 31 December			Six months ended 30 June
	2003	**2004**	**2005**	**2006**
	(in thousand tonnes)			
Croatia	3,187	2,891	3,010	1,296[2]
Bosnia and Herzegovina	668	712	570	291
Slovenia	254	159	57	25
Montenegro	2	33	48	29
Serbia	71	123	97	66
Other export markets, principally spot markets[1]	727	962	1,074	421
Total export	1,722	1,989	1,846	832
Total	4,909	4,880	4,856	2,128

Notes:

(1) INA Group exports mostly higher quality products such as LPG, virgin naphtha and gasoline.

(2) The six month sales are impacted by the Rijeka shut-down in April and May 2006. See "— Refining & Wholesale — Rijeka refinery".

INA Group's non-domestic wholesale and retail marketing business is conducted through foreign subsidiaries, of which the most material is Holdina Sarajevo. See "— Subsidiaries — Principal Subsidiaries". INA Group estimates that its market share of refined products in Bosnia and Herzegovina, which is its main export market, is approximately 60 per cent. Maintaining and increasing its market share in Bosnia and Herzegovina is one of the principal strategic goals for INA Group. The location of INA's refineries and warehouses in Ploče and Podlugovi (near Sarajevo) provide INA Group with a significant logistical advantage over competitors in the Bosnian market.

INA Group's market share in Slovenia has decreased in recent years and was estimated to be 5 per cent. in the year ended 31 December 2005, mainly due to INA Group's limited ability to produce Eurograde fuel products. INA Group aims to increase this market share to 30 to 35 per cent. once it is able to produce greater volumes of Eurograde products.

Pricing

Prices of gasoline, diesel fuel and heating oil are regulated by the Regulations Determining the Price of Oil Derivatives of 2006, as amended (NN 75/2006 and NN 85/2006), which sets a pricing formula tied to international refined product prices, under which the maximum prices for regulated oil products are determined. LPG prices are regulated through a separate decree. See "Regulation — Croatia — Industry Regulation — Regulation of the oil sector — Pricing".

Prices of other petroleum products in the domestic market are not regulated. Prices of petroleum products sold to export markets are set at negotiated prices based on international prices and are not affected by regulations in the markets into which such products are sold. The prices on export are market situation driven.

The pricing formula takes into account the market price of refined products (average CIF Med Platt's quotations in relevant calculation period), foreign exchange rates (HRK/USD), import customs, costs of primary storage and handling, and margins. The base for calculation is formed by multiplying the CIF Med Platt's average of quotations published in the 15-day calculation period by the average selling exchange rate of HRK/USD announced by the Croatian National Bank in the same period, and then adding import customs duties (currently set at 2.1 per cent.) and costs of primary storage and handling (currently set at 68.17 HRK/T for gasoline and 56.00 HRK/T for diesel fuels, gas oil and blue diesel). To form the maximum selling price, the formula takes into account the above calculation base, product density and margin (currently set at HRK 0.6 per liter for motor fuels, HRK 0.4 per liter for gas oil and HRK 0.3 per liter for blue diesel). The formula also takes into account the contribution to the Agency for Mandatory Reserves of Oil and Oil Derivatives (currently set at 120.00 HRK/T) which is added to the wholesale price of regulated oil products.

The maximum price also includes value added tax ("VAT", currently set at 22 per cent.), as well as excise duties (determined by the Government for the respective oil product) and the amount of contribution for public road construction and maintenance (currently set at 1.20 HRK per liter of diesel fuel and gasoline), which are payable by producers and importers of oil products. As of June 2006, a new law on Oil and Oil Derivatives Market enables the Government to set the maximum product price for a maximum of 90 days for reasons of consumer protection, market regulation or other reasons which are not specifically listed in the Oil and Oil Derivatives Market Act. See "Risk Factors — Government regulation and intervention affect INA Group's business".

The pricing formula is applied to all participants in the domestic market, although market participants are free to sell at prices below the maximum permitted level, and will invariably do so.

The Refining & Wholesale business segment makes a significant portion of its domestic sales to the Retail business segment, which, like the Refining & Wholesale business segment is directly affected by this regulatory regime and pricing formula. Sales of regulated products to the Retail business segment are made under agreed pricing arrangements set at INA board level, taking into account a broad range of factors, including retail market conditions. The transfer price between the Refining & Wholesale and Retail business segments is currently set to ensure that the Retail business segment achieves a fixed margin for all products it sells.

Transfer prices to the Retail business segment include "free delivery to the petrol station", meaning that the cost of transportation to retail outlets is borne by the Refining & Wholesale business segment. When products and crude oil prices are high, however, this causes the Refining & Wholesale business segment's margins to fall, due to the guaranteed retail margin under the transfer pricing arrangements. In these situations the transfer price to the Retail business segment can be changed by a decision of the INA Board. When the Refining & Wholesale business segment is not able to pass on the whole increase in its own crude oil or product input prices through the margins, the impact is equally divided between the Exploration & Production, Refining & Wholesale and Retail business segments.

In periods of high prices volatility of crude oil and refined product prices, the ability to charge the maximum prices under the pricing formula may be restricted to protect the consumer. In such a situation, the Refining & Wholesale business segment's profitability can be further squeezed between rising raw material costs and an inability to reduce the retail margin. The ability to competitively price its products has assisted in the preservation of INA's market share. INA Group is not subject to import tariffs on its domestic production, which allows it to reduce its pump prices while still achieving a comparable margin to the competition. However, as customs on products imported from EU countries have declined over the period (4.2 per cent. in 2005, compared to 6.1 per cent. in 2004), this pricing advantage has been eroded. INA has responded to the lowering of prices in the wholesale market (which is governed by the same pricing formula) by offering wholesale customers an increasing level of discounts as part of the annual tendering process. See "Risk Factors — Government regulation and intervention affect INA Group's business" and see "Operating and Financial Review — Recent Trends and Developments — Refining & Wholesale".

Wholesale prices for special/important customers, generally state-run organizations, are subject to special price requirements, set through a bidding process to which the Government is a party. All contracts with special/important customers are standardized, except for the contract with HEP, which has specially negotiated prices. Prices for other large and industrial domestic customers are negotiated on an annual basis and are set at a discount, to the maximum prices achievable under the formula. Prices for Crobenz and INA-Osijek Petrol (both subsidiaries of INA) are set on the basis of special three-year contracts with maximum rebates not at arm's length.

Small customers of non-price regulated products (bitumen and heavy fuel oils) are not given discounts.

Distribution infrastructure

In addition to INA's product storage depots at the Rijeka and Sisak refineries, INA Group owns and operates 33 operational tanks, accounting for 187,000 m^3 (1.2 MMbbl) of volume. INA Group also rents two depots at Ploče and Zadar with total capacity of 72,000 m^3 (452 MMbbl). Several other sites have recently been shut down as part of a rationalization and cost cutting program.

The following table shows the volume and number of tanks of the principal storage facilities owned and operated, or rented, by INA Group, other than the storage facilities at INA's refineries.

Owned and operated

Location	Number of tanks	Volume m^3	Volume Mbbl
Osijek	3	10,000	62.9
Solin	16	75,000	471.7
Zagreb — Žitnjak	8	75,000	471.7
Podlugovi(1)	4	17,300	108.8
Zagreb — Maziva	2	10,000	62.9

Rented

Location(2)	Number of tanks	Volume m^3	Volume Mbbl
Zadar	9	40,000	251.6
Ploče	7	32,000	201.2

Notes:

(1) Located in Bosnia and Herzegovina and owned by INA.

(2) INA Group moves products between the refineries and the other storage depots to serve its wholesale and retail operations by ship, rail and road.

Shipping is used to transport oil products via sea from the Rijeka refinery to the Zadar, Solin and Ploče warehouses, and delivered from there to petrol stations and marine terminals on the southern Dalmatian Islands. In 2005, approximately 1.0 million tonnes of refined products were shipped. Shipping services are provided to INA Group by third parties under long-term contracts.

INA Group has 397 of its own rail tank cars, of which 231 tanks are used to transport refined products and 166 are used for the transport of LPG. Rail is used primarily for delivery to the domestic market.

Road transport is used to deliver fuels to INA Group's petrol stations, its wholesale warehouses, and its wholesale buyers. Road transport is partially performed by INA Group's fleet of 80 road tankers. INA Group also utilizes approximately 250 third-party road tankers.

With the assistance of Roland Berger Strategy Consultants, INA Group has identified and plans to implement a number of restructuring initiatives for optimization of the distribution process, including the segmentation of its network into premium company-owned and company-operated petrol stations and standard company-owned franchise operated sites, the improvement of its product offering and the optimization of on-site and off-site costs. This project is expected to realize net savings of HRK 170 million per year from 2007 onwards.

INA Group has identified a potentially significant business opportunity to act as the major provider of warehouse facilities and operations services to the Croatian Agency for Mandatory Reserves of Oil and Oil Derivatives pursuant to the new mandatory reserves requirements. See "Regulation — Croatia — Industry Regulation — Oil and refined products reserves — Mandatory reserves".

Subsidiaries

The Refining & Wholesale business segment also includes certain subsidiaries of INA, which carry out similar business to INA's Refining & Wholesale division. The most material ones are described below.

Proplin

Proplin was established on 1 January 2003 as a wholly-owned subsidiary of INA. Its principal activity is purchasing, transporting, bottling and selling LPG. Proplin buys all of its LPG from the Refining & Wholesale business segment. The Retail business segment is its biggest customer, accounting for approximately 25 per cent. of its sales in 2005. Proplin sells virtually all of its products on the Croatian market, where, in 2005, it had a wholesale market share of 87 per cent. for LPG.

Inter INA Limited

Inter Ina Limited is a London-based wholly-owned subsidiary of INA. Its main business is to purchase crude oil from third parties for the Rijeka and Sisak refineries. This business accounts for approximately 95 per cent. of its sales. Other activities include trading in chemicals and fertilizers.

Inter INA (Guernsey) Limited

Inter INA (Guernsey) Limited is a wholly-owned subsidiary of INA. It purchases crude oil for the Refining & Wholesale business segment and sells refined products to third parties. It is the exclusive seller of crude oil from INA's upstream activities in Angola.

Holdina Sarajevo

Holdina Sarajevo is a wholly-owned subsidiary of INA which operates 37 petrol stations throughout Bosnia and Herzegovina. The petrol stations are owned by INA and leased to Holdina Sarajevo. The main activity of Holdina Sarajevo is the wholesale and retail sale of gasoline and refined products as well as the distribution of natural gas and the trading of energy commodities. Gasoline, refined products and lubricants are purchased from INA Group, whereas non-oil products are sourced from third parties. Further details of Holdina Sarajevo's activities are set out in "— Retail".

InterINA Mostar

Interina Mostar is a wholly-owned subsidiary of INA which operates four petrol stations in Bosnia and Herzegovina. The majority of its sales are to wholesale customers.

InterINA Ljubljana

Interina Ljubljana is a wholly-owned subsidiary of INA which operates six petrol stations in Slovenia. The majority of its sales are to wholesale customers.

Crobenz

Crobenz is a 98 per cent. subsidiary of INA, which operates nine petrol stations in Croatia. The majority of its sales are to wholesale customers.

INA-Osijek Petrol

INA-Osijek Petrol is a 76 per cent. subsidiary of INA, which operates nine petrol stations in Croatia. The majority of sales are to wholesale customers.

Retail

INA's Retail business segment distributes and markets motor fuels and various other ancillary products to retail consumers in Croatia through a network of 409 petrol stations as of 30 June 2006. Based on data produced by the Croatian Energy Institute "Hrvoje Požar", INA Group had a market share in Croatia of 60.3 per cent. in terms of number of petrol stations and 64.1 per cent. based on fuel volumes sold in 2005. In the year ended 31 December 2005, the Retail business segment contributed HRK 65 million, or 3.2 per cent., and in the six months ended 30 June 2006 the Retail business segment recorded a loss of HRK 8 million.

The petrol stations in INA's Retail business segment, in Croatia are currently organized into six business regions spread geographically so as to cover the entire territory of Croatia (Zagreb, Varaždin, Osijek, Rijeka, Sisak and Split). Each of 2003, 2004 and 2005 were marked by investments in the retail network. Fourteen new petrol stations were constructed along the highway routes across Croatia: Zagreb-Varaždin, Zagreb-Split and Zagreb-Bregana (near the border with Slovenia). In addition, two sites were fully reconstructed.

The following table sets forth the total number of INA Group petrol stations and total retail sales of motor fuel in Croatia, and their market share according to the data provided by the Croatian Energy Institute "Hrvoje Požar" and INA Group.

	Year ended 31 December		
	2003	**2004**	**2005**
Total number of petrol stations in use	663	685	710
Operated by INA Group	421	426	428(1)
thereof owned by INA	392	397	397
thereof leased by INA	13	13	13
thereof operated via subsidiaries	16(2)	16(2)	18(2)
INA Group's market share	63.9	62.2	60.3
Total retail sales (000 t)(3)	1,524.9	1,566.7	1,649.1
Sold by INA (000 t)(3)	1,046.3	1,039.3	1,057.3
INA Group's market share(3)	68.6	66.3	64.1

Source: INA and Croatian Energy Institute "Hrvoje Požar".

Notes:

(1) In 2005, a total of 18 petrol stations were transferred to the Refining & Wholesale business segment.

(2) These petrol stations are operated by Crobenz and INA-Osijek Petrol and not included within the financial results of the Retail business segment. As the majority of their sales are to wholesale customers, their financial results are included in the Refining & Wholesale business segment.

(3) Sales of motor fuels including retail sales through Crobenz and INA-Osijek Petrol. Sales from Crobenz and INA-Osijek Petrol amounted to 33,986 tonnes, 34,055 tonnes and 33,497 tonnes in 2003, 2004 and 2005, respectively.

INA Group's wholesale business segment supplies all of the fuel requirements of its Croatian petrol stations, 82.5 per cent. of which is refined by INA's refineries. In 2005, the average throughput per station operated by INA Group in Croatia was approximately 3.18 million liters.

All of the Retail business segment's petrol stations are linked to the corporate IT system to ensure on-line transfer of data and improved business processes, and allow for cashless payments through INA Group's point-of-sale systems. The level measuring systems installed in storage tanks, which are linked to the central system, provide accurate information on fuel levels in the tanks and enable improved stock control and supply management.

Outside of Croatia, INA also operates 41 petrol stations in Bosnia and Herzegovina and six in Slovenia through wholly-owned subsidiaries, although the results of those petrol stations are included in the Refining & Wholesale business segment as the majority of their sales are to wholesale customers. In 2005, the average throughput per station of these non-domestic petrol stations was 1.2 million liters in Bosnia and Herzegovina and 3.1 million liters in Slovenia. In September 2006, a MOL/INA consortium (50 per cent. INA and 50 per cent. MOL) signed a Recapitalization Agreement with the Government of the Federation of Bosnia and Herzegovina and Energopetrol for the acquisition of a 67 per cent. (33.5 per cent. each) interest in Energopetrol for a total amount of

KM 10.2 million (approximately €5.1 million), payable equally by both parties. Energopetrol engages in the marketing of refined products in the Federation of Bosnia and Herzegovina, where it operates 65 petrol stations. The consortium will invest KM 150 million in the three-year period following completion: KM 20 million (approximately €10 million) in the first year; KM 35 million (approximately €17.5 million) in the second year and KM 95 million (approximately €47.5 million) in the third year. The consortium has also agreed to cover all liabilities of Energopetrol in the amount of KM 60.2 million (approximately €30.1 million). This transaction has not yet closed, as the parties are awaiting the approval of the competition authorities in Bosnia and Herzegovina. The remaining interest in Energopetrol will be retained by the Federation of Bosnia and Herzegovina (22 per cent.) and citizens of Bosnia and Herzegovina (11 per cent.).

INA Group is also currently negotiating the settlement of restitution claims with the Government of Republika Srpska, which is part of Bosnia and Herzegovina. The result of these negotiations is expected to give INA Group a controlling interest in Krajinapetrol and its 14 petrol stations in the Republika Srpska.

INA Group non-fuel sales

All of the petrol stations in INA Group's Retail business segment have shops, 30 sites offer cafés and 11 provide car wash facilities. The Retail business segment's shop size averages 30 m^2, an increase from a 25 m^2 average in 2002. The Retail business segment's shops offer its clients a choice of various consumer goods including snacks, cold beverages, groceries, cigarettes, magazines and auto accessories. In recent years, the Retail business segment has increased its number of stations with a premium non-fuel offering (minimum 60 m^2 of shop space) from 24 in 2003 to 40 as of 30 June 2006. The Retail business segment's average gross margin per liter of motor fuel sold has increased from HRK 0.05 in 2003 to HRK 0.06 in 2005.

INA fleet card

The INA fleet card was introduced in 1996 to enable corporate customers to pay for fuel purchases without using cash. In 2005, the purchase of fuel with the INA fleet card accounted for approximately 23 per cent. of sales of INA fuel. In 2005, total INA fleet card transactions accounted for approximately 50 per cent. of total payments in INA Group's retail network. Currently, only companies and private individuals employed by INA Group are eligible for the INA fleet card. By the end of 2005, INA fleet cards had been issued to 11,000 corporate customers.

Future investment plan

INA Group's strategic goal is to strengthen the INA brand through further improvement of the retail network, focusing on customers and their satisfaction and by constantly improving the quality of its services. INA Group's retail investment plan is comprised of three key elements: restructuring and upgrading the existing network, constructing greenfield sites and acquiring strategic sites.

Restructuring and upgrading the existing network

In early 2006, INA Group hired Roland Berger Strategy Consultants to draw up a strategy and to help it evaluate its retail network and identify actions to improve the profitability of its operations. As a result of this study, INA Group has adopted the following initiatives:

Network segmentation: Presently, virtually all of INA Group's Croatian petrol stations are company-owned, company-operated ("COCO") sites. Under the plan, INA Group is introducing a new concept of premium COCO sites, as well as standard company-owned, dealer/franchise-operated ("CODO/COFO") sites. The premium sites will be those with minimum annual motor fuel sales of 4 million liters, minimum annual non-fuel sales of HRK 1 million, and a minimum shop space of 60 m^2. INA Group has over 40 sites that meet these criteria, and it has identified over 100 additional sites that meet the criteria to be premium sites based on current motor fuel sales. The remaining sites will be further evaluated and converted into premium COCO sites, standard CODO/COFO sites, unmanned sites or will be divested/closed. Sites will be operated under the INA umbrella brand.

Improvement of product offering: INA Group plans to optimize the product blend at its petrol stations to meet the demand characteristics of its site formats, with an emphasis on the sale of Eurograde fuels and of consumer goods, and more sophisticated merchandizing techniques.

Optimization of on-site and off-site costs: This is intended to be implemented through various measures, including the introduction of pay-at-the-pump facilities.

Constructing greenfield sites

INA Group plans to continue to identify and develop new sites, particularly in premium locations, such as large urban areas and motorways. INA Group is currently developing seven new premium COCO stations. In 2007, INA Group plans to develop an additional four COCO stations. As a result of the Roland Berger Strategy Study, INA Group has identified ways to optimize procurement and standardize formats to reduce construction costs.

Acquiring strategic sites

INA Group plans to further grow its retail network by acquiring strategically located individual existing sites, either directly or through company acquisitions.

As part of the investment plans for the petrol station network, INA Group is also making investments in environmental compliance. For example, when stations are refurbished, INA Group complies with applicable EU environmental standards relating to double-wall tanks, drainage and vapor recovery.

Sales prices and retail margins

Maximum selling prices for gasoline, diesel fuel and extra light heating oil are determined by a regulation adopted by the Minister, which provides formulae for setting prices relative to international market prices. See "— Refining & Wholesale — Wholesale marketing and distribution — Pricing". A maximum permitted margin, currently set at 0.6 HRK/liter for motor fuels including retail and wholesale margin, may be added to wholesale prices determined under such formula.

INA Group re-sets the sales prices periodically at intervals of two weeks and it may choose for social and commercial reasons to re-set its prices below the maximum price calculated by the formula.

Corporate and Other

Corporate Functions is a cost center of INA and provides support services to the other divisions within INA. Its key purpose is to provide a range of support services rather than to generate profits.

Corporate Functions comprises four sub-functions that are each headed by a member of the Management Board. Each of these four sub-functions operates as a separate department.

The four sub-functions that make up Corporate Functions are:

- *Finance Function*, which includes the Treasury, Accounting and Tax, Planning and Controlling, Resource Allocation and Investment Planning and Subsidiary Coordination Sectors;
- *Corporate Processes*, which includes the Research and Development, Health, Safety and Environment, Quality Management and Investment Management Sectors;
- *Corporate Services*, comprising the Procurement Sector, Storage and Inventory Sector, IT support Sector, Maintenance Sector and Facility Management Sector; and
- *Functions directly reporting to the President of the Management Board*, which include Strategic Planning and Corporate Business Development, Human Resources (HR), Legal Affairs and Corporate Communications Sectors.

"Other" refers to any INA Group activities which do not fall into the three primary business segments within INA.

Subsidiaries

Principal subsidiaries

INA has a number of wholly and partially-owned subsidiaries and associated companies.

The principal subsidiaries operating in Croatia include Crosco, an integrated onshore and offshore drilling and well services contractor, for further details of which, see "— Exploration & Production"; Proplin, a marketer of LPG, for further details see "— Refining & Wholesale — Proplin"; Maziva-Zagreb d.o.o., which owns the Maziva Zagreb blending and packaging facility, for further details see "— Refining & Wholesale — Maziva Zagreb blending and packaging facility" and; Sinaco, which provides INA Group with safety and security services.

Foreign subsidiaries generally act as distributors of INA Group products, purchasers of raw materials, arrangers of finance guaranteed by INA and as representative offices within their local markets. The most significant of these are Inter INA Limited, Inter INA (Guernsey) Limited and Holdina Sarajevo. See "— Refining & Wholesale — Subsidiaries".

Other subsidiaries

STSI

Certain of INA's maintenance engineering and designing activities were transferred to STSI, a company established, and wholly-owned by INA, in 2001. STSI's principal activity involves the repair and maintenance of plant, equipment and facilities. STSI also performs activities relating to the construction of process plants and installations for petrol stations, natural gas distribution facilities and decommissioning of oil rig structures.

STSI provides maintenance services mainly to INA Group's Exploration and Production and Refining and Wholesale business segments, with INA Group accounting for 92 per cent. of 2005 sales. Most recently, the company has been involved in INA Group's refinery modernization program. STSI also provides services to other INA Group companies, as well as to third-party customers, which include Zagreb Airport, Siemens, Bechtel, JANAF, and Croatian Motorways.

Sinaco

Sinaco was founded in 2003 as a wholly-owned subsidiary of INA. Sinaco provides INA with services ranging from security of employees and assets to firefighting and work environment protection. Sinaco's main customer is INA, accounting for roughly 97 per cent. of its sales. Sinaco also provides security and safety services for JANAF.

Other

For historical reasons, some of INA's subsidiaries are engaged in a number of activities that are not part of INA Group's core operations, e.g. car rental, hotels and tourism. Other includes the revenues generated by such subsidiaries. These activities are not material to INA Group results.

Employees

As at 30 June 2006, INA Group had 16,114 employees, including temporary workers, and 15,989 employees as of 31 December 2005. Overall, INA Group's employee numbers have been relatively static since 2003 due to management's identification of excess employment at INA Group and INA Group's use of early retirement programs as one method of managing staffing levels within the parameters of Croatian legislation. Redundancies and early retirement of head office staff have been largely offset by the recruitment of petrol station staff in the Retail business segment. The following table provides a breakdown of INA Group's employees as of 31 December 2003, 2004 and 2005 and 30 June 2006 by business segment.

	As of 31 December			As of 30 June
	2003	**2004**	**2005**	**2006**
Exploration & Production	4,771	4,656	4,506	4,545
Refining & Wholesale	3,871	4,327	4,327	4,315
Retail	3,482	3,151	3,250	3,412
Corporate Functions (including Management and Supervisory Board)	3,960	4,008	3,906	3,842
Total	16,084	16,142	15,989	16,114

Although INA Group anticipates that employee numbers will increase in 2006 as a result of petrol station acquisitions and to provide extra personnel in relation to the refinery modernization program, it plans to decrease the overall number of employees by 3 per cent. annually between 2006 and 2010. The planned reductions are intended to address the legacy of high employee numbers and overstaffing in head office functions. Management is currently addressing overstaffing. For example, in January 2005, INA established a three-year redundancy plan for 2005 to 2007, which is expected to result in a reduction of approximately 850 employees by encouraging early retirement and targeting long-term sick employees with severance terms. In 2005, the total number of employees who left the Company on the basis of the redundancy plan was 599. The number of employees who left the company on the basis of the redundancy plan in the 8 months to 31 August 2006 was 91.

Relationship with trade unions

Three trade unions are active in INA Group, namely SING (the INA Oil and Oil Industries Union), which mainly represents workers in the Exploration & Production business segment, Inaš (the Trade Union of INA Employees Trade and INA Companies Zagreb), which mainly represents workers in the Retail business segment, and EKN (Chemical, Energy, Mine Trade Union and General Workers' Union of Croatia). Over 90 per cent. of INA's employees are members of at least one of these unions. Relations between INA Group and its employees are generally good, and there have been no work stoppages at INA Group in the last five years, although a dispute between INA and the unions regarding the extension of a prior collective bargaining agreement was settled on 24 November 2003, resulting in a total settlement payment by INA of HRK 48.3 million.

Employment terms

The key employment terms for all INA Group's employees, except for the middle and senior management and members of the management and supervisory boards of each INA Group company, are set out in a collective agreement which is agreed between each INA Group company and the trade unions on an annual basis. The collective agreement for INA for the current financial year was signed in April 2006, effective from 1 January 2006. The other companies within INA Group sign their own collective agreements with trade unions, substantially under the same terms as set in the collective agreement signed by INA. The remuneration of the middle and senior management of INA is determined by the Management Board, whose remuneration is, in turn, determined by the Supervisory Board. In accordance with the Labor Law and the Articles of Association of INA, the employees of INA are entitled to appoint one member of the Supervisory Board, although there is currently no employee appointee on this board.

Insurance

INA Group maintains insurance in line with industry practice and in such amounts and with such coverage and deductibles as the management believes are reasonable, prudent and appropriate for the risks inherent in INA Group's business. Among the risks incurred are damage to property, interruptions in INA Group's business as well as civil liability to third parties arising out of INA Group's operations and products. As a rule, INA enters into standard CAR and EAR coverage for its investments.

A report carried out by the insurance brokers, Willis, following their review of INA's insurance arrangements in December 2004, recommended, among other things, that INA increase its third-party liability limit to bring it into line with oil industry standards, where typical cover is in excess of U.S.$250 million. INA purchased only U.S.$50 million of cover, which it regards as sufficient, given the risks it faces and the levels of damages awarded by Croatian courts in the past. In addition, policy limits are on an aggregate basis and no provisions have been made for reinstatement of cover if it is all eroded in any policy year. In theory, this could leave INA exposed to potentially significant uninsured losses although INA considered reinstatement cover but concluded that it was not necessary. The occurrence of any event that is not fully covered by insurance could have a material adverse effect on INA Group's results of operations and financial condition.

INA's internal insurance team does not currently have day-to-day control over the insurance strategy being followed by the rest of INA Group. INA Group plans to review the team's level of influence and control in this area in the near future.

INA's Directors & Officers (D&O) liability limit is currently at a very low level from a private sector perspective. The environmental liability section of the policy is a subset of the overall liability cover. The amount of coverage purchased is, in the opinion of INA's management, in line with the best industrial practice in the Core Region and in Croatia and appropriate for the company's size, although it is lower than international industry practice if compared to companies in the oil and natural gas sector in the UK and U.S. INA Group also lacks certain licenses and permits required to operate its business, including building and use permits for certain of its facilities. See "Risk Factors — Certain of INA Group's permits and formal evidence of its ownership rights may be missing or deemed insufficient, defective or inadequate". INA Group's public liability insurance policy does not cover losses resulting from a damage or loss which is a direct consequence of the lack of a permit or other contravention of the laws applicable to INA Group's activities. By law INA Group is generally required to obtain insurance from insurers incorporated in Croatia, who customarily spread the associated risk by re-insuring with international insurers.

Health, Safety and Environment

INA Group is subject to numerous laws and regulations with respect to protection of the environment and employee health and safety in the countries in which it operates. In addition to laws and regulations, there is also an increasingly high expectation and demand from the society and the market place to improve HSE standards. INA Group views employee health, workplace safety and effective environmental protection as high priorities which form part of its business strategy. As part of its commitment to decrease the impact its activities have on the environment it is looking towards EU environmental standards to benchmark its goals consistent with the plans Croatia has to join the EU.

The Health Care, Safety, and Environmental Protection Sector is a central, i.e. corporate, organizational unit for these areas at INA, and was founded with the aim of creating a uniform HSE management body, to define policies, strategy, and objectives, reporting to and informing the Management Board and other participants and stakeholders and functioning in compliance with clear rules which meet the requirements of relevant laws and regulations.

Environmental protection activities are implemented through a working group for the coordination of EP activities appointed at INA level, while the activities of health care and safety are performed via advisory bodies of the Occupational Safety Committee.

The number of workplace injuries to employees of INA Group decreased by 3.4 per cent. in 2005 as compared with 2004. Working hours lost due to injury also fell by 5 per cent. in this period. This improvement is believed to be partly due to improved preventative measures and continuing occupational and fire safety training. The number of injuries which occurred in 2003 totaled 172, compared to 147 in 2004 and 142 in 2005.

INA Group faces many of the same environmental challenges that all oil and gas companies face. Many of INA's facilities, including its refineries, have been operating for many years, including during periods when environmental protection was not practiced and/or a priority. Similarly, because of INA's long history and lack of investment in the past in certain areas, much of INA's plant and equipment at its refineries, storage depots and petrol stations and its field pipeline network is old and, as such, would not comply with more stringent environmental standards. Environmental protection is now a key priority for INA Group and some of INA's current investment plans (such as the refinery modernization program) have a large environmental component. Whenever upgrades and/or replacements take place, it is INA Group's policy to take into account current and expected environmental protection standards — for example, this is an underlying principle of the approach to petrol station refurbishment. Closure and decommissioning of exploration and production facilities includes an environmental protection element; where required by INA Group's accounting policies, future costs for such decommissioning are provided for in INA's financial statements. See "Operating and Financial Review — Contingencies — Environmental Contingencies" and "Operating and Financial Review — Critical Accounting Policies — Provisions for decommissioning and other obligations".

INA Group's facilities and operators in Croatia are regularly inspected by the Croatian Environmental Authorities. In certain cases, where either INA Group has failed to comply with the limitations or standards, or more stringent limitations have been issued, INA Group's policy is to implement the measures requested by regulatory authorities and make the investments to achieve compliance. INA Group is currently the defendant in 9 administrative proceedings and 5 lawsuits involving issues relating to environmental protection. In addition, INA Group is aware of some incidences of soil and/or groundwater contamination which it has been discussing with the Croatian Environmental Authorities about and in connection with which it is taking short-term remediation action and investigating and discussing with the Authorities a longer term remediative plan. Since the beginning of 2003, INA has paid damages of U.S.$8,333 and fines of U.S.$30,215 in total, and individuals within INA have paid U.S.$4,058 in fines regarding environmental claims. There are currently no on-going or pending administrative proceedings that would require significant investments by INA Group. Management believes that INA Group is in substantial compliance with the current laws, regulations, permits and licenses to which it is subject in Croatia and in its foreign operations where it is responsible for environmental compliance.

INA Group is undertaking several initiatives to improve its environmental compliance standards beyond what is strictly required in Croatia and to move towards compliance with EU and international standards and best practices. Although this will in practice take several years, possibly until say 2020, INA Group is confident that this can be done in accordance with Croatia's planned EU accession based upon its present understanding of the likely issues it will face, the EU laws to which it could become subject and the anticipated grace periods for compliance that will be negotiated as part of Croatia's accession.

As an example of one of these initiatives, INA Group is currently undertaking an "Environmental Rehabilitation Project", funded partly by a loan of U.S.$44 million from the EBRD and partly from INA Group's own resources. Most of the environmental projects initiated pursuant to this loan from the EBRD are finished or are close to completion. Some of the projects include: a new waste water treatment facility in the Maziva Rijeka lubricants plant; reconstruction of a unifying unit, oily water separator and water supply system in the Sisak refinery. All of these projects have had positive impacts on the environment in their respective locations, such as improving the quality of discharged waste water, reducing sulfur emissions or reducing hydrocarbon leakage. Additionally, a unit for the injection of process waste into deep wells has been put into operation in the Exploration & Production business segment as well as an upgrade of the LO-CAT unit at the Molve natural gas treatment plant which will reduce the water content in the slurry resulting in a reduction of waste and H_2S emissions.

In addition, various of INA Group's major modernization and restructuring plans discussed elsewhere in this Prospectus will facilitate of INA Group's facilities and businesses becoming substantially compliant with EU environmental standards. The two main projects in this regard are:

- *Refinery Modernization:* reduction of SOx and NOx emissions into the air directly from refinery plants and from fuel combustion. (€58 million for 2 Sulfur recovery units and €30 million for revamping the cooking facilities at the Sisak refinery); and
- *Petrol Station Strategy:* 81.2 per cent. of stations are now fully compliant with Croatian environmental requirements. However, as discussed elsewhere in this Prospectus, the current upgrading of INA's petrol stations generally includes replacement of tanks with double walled tanks, vapor recovery equipment and EU compliant drainage. INA is developing plans for all its stations to become EU compliant by 2012 and has begun work on a complete costing exercise with the assistance of financial and environmental consultants.

INA Group has also completed an initial review of its compliance with existing environmental legislation in Croatia and the EU and its methods of identifying and assessing environmental liabilities, with the assistance of a leading international firm of environmental consultants — Golder Associates. This review covers INA Group's exploration and production facilities, refineries, lubrication plants, wholesale storage depots and the petrol station network.

This review has indicated that the exploration and production facilities of INA Group are in material compliance with existing laws and that all significant environmental liabilities, particularly those relating to closure and decommissioning, have been appropriately identified and that a suitable financial provision is in INA Group's financial statements. The initial review did not, however, involve an independent audit of the condition of the sites mentioned above, so these estimates may not be definitive and provisions may be insufficient. See "Risk Factors — INA Group is required to comply with stringent environmental laws and regulations, which may change".

With regard to the refineries, Golder Associates have reviewed the existing work being done by INA Group in connection with the remediation of various soil and groundwater contamination situations and plans for longer term remedial solutions. These longer-term solutions are not yet required by Croatian legislation. Initial estimates from Golder Associates indicated that the possible cost (expressed as present value) of remediation of soil and groundwater contamination at the refineries is in the range of €12 million to €14 million, based on the assumption that it would not need to be completed until 2020. In addition, investment is required at the Sisak refinery, at the existing waste water treatment plants, to ensure compliance with Croatian standards, which is estimated to be in the range of €6 million to €10 million.

The principal environmental issues identified in the Wholesale and Distribution Division is the state of storage tanks, vapor recovery equipment and drainage improvements at storage sites and historic soil and groundwater contamination. A further stage in the review, involving more detailed work, is on-going, but initial estimates from Golder Associates have indicated that the likely cost (expressed as present value) of remediation or soil and groundwater contamination in the Wholesale and Distribution business segment is in the range of €3 million to €4 million, based on the assumption that it does not need to be completed until 2020.

A recent study of the petrol stations commissioned by management has resulted in an initial financial estimate of environmental liabilities associated with the current petrol stations in Croatia including both operational compliance issues and soil and groundwater issues. Golder Associates are reviewing this study and planning further detailed work but initial estimates from Golder Associates have indicated that the likely cost (expressed as current value) of compliance issues is in the range of €30 million to €60 million and remediation of soil and groundwater contamination at the petrol stations is in the range of €12 million to €14 million, based on the assumption that it would not need to be completed until 2020.

INA presently estimates that the present value of the aggregate costs of environmental compliance (in addition to expenditure already provided for or included in the refinery modernization program or the petrol station upgrade program) might be in the range of €20 million to €85 million with the upper end representing those costs that might need to be incurred if Croatia joins the EU within the period from now to 2020. More work on determining the possible range of the costs of complete soil and groundwater remediation is required but based on companies in similar situations the environmental consultants believe that if INA Group were to comply fully with Croatian and EU requirements for soil and groundwater contamination the aggregate present value of costs could range from €5 million (to comply with Croatian requirements) to between €5 million and €40 million (to comply with Croatian and EU requirements); this costs range can only really be refined by further and continuing monitoring which INA plans to do. It is also important to recognize that the soil and groundwater remediation involves an extremely long-term program of possible expenditure. A considerable proportion of the estimated expenditure relates to the environmental work required to be carried out at INA Group's petrol stations.

Property

Other than the two refineries at Rijeka and Sisak, the lubricants and blending/packaging facilities in Zagreb and Rijeka and INA Group's headquarters in Zagreb, INA Group does not own any properties that are material. INA Group does not lease any properties that are material.

Intellectual Property

In accordance with its intellectual property management strategy, INA Group seeks to take appropriate and reasonable measures under the intellectual property laws of all relevant jurisdictions to protect its intellectual property. INA Group has registered, or is in the process of registering, certain intellectual property rights that are important for its business (e.g., INA Group brands, logos, inventions and industrial designs) in Croatia and in the other markets where INA Group has been, or intends to be, present.

In 2005, INA Group created a group wide knowledge database which comprises INA Group's employees' inventions, technical improvements, proposals for rationalization and copyrights.

Part of the technology that INA Group uses in its business is subject to proprietary rights of third parties that are licensed to it. INA Group typically obtains such licenses in connection with its purchase or lease of the corresponding equipment (in particular for equipment or processes used for its refining activities, including chemicals processing) and those licenses generally have a term equivalent to the useful life of the corresponding asset or the term of the lease.

Information Technology

INA Group's IT applications and business processes have been developed over the long term to meet the specific needs of INA Group's individual business units. As a result, historically, there has not been a great deal of consistency or coordination between the IT systems and databases of the different business segments, which has resulted in additional costs.

In early 2005, INA Group began moving towards a centralized IT model and developed Group-level IT policies. In May 2005, INA Group launched a major IT overhaul project which seeks to integrate INA's decentralized IT systems through the implementation of an integrated SAP IT system, and to align business processes to extract the maximum business value at the lowest cost. SAP is also expected to improve management's reporting and financial monitoring capability. The projected cost for the project, including upgrading infrastructure directly related to SAP, is U.S.$77.8 million over three years. The project is currently on schedule for completion in January 2007 and phase I was successfully rolled out on 1 November 2006. See "Risk Factors — INA Group is in the process of implementing a new, integrated information technology system which may not achieve all of its expected benefits in accordance with the planned schedule or within budget".

Legal Proceedings

No member of INA Group is, or has been, involved in any administrative, legal or arbitration proceedings of which INA is aware, during the 12 months preceding the date of this prospectus which may have, or have had in the recent past, a material adverse effect on INA and/or INA Group's financial position or profitability.

A short description is provided below of legal proceedings involving INA or companies that are part of INA Group where the value of the disputes exceeds HRK 10 million, including civil litigation before competent courts of the Republic of Croatia and the Republic of Serbia, arbitration procedures before foreign arbitration tribunals, the administrative disputes related to tax liabilities and several bankruptcy proceedings against bankrupt debtors of INA.

Litigation

In general, litigation involving members of INA Group either as plaintiff or defendant arises in the ordinary course of business in respect of gas or oil supply agreements or relates to a member of INA Group's rights with respect to its currently or formerly owned property.

INA as defendant

Ljubljanska banka d.d. claim

The pending litigation initiated by Ljubljanska banka d.d. against INA in 1995 for HRK 60.5 million represents the difference between statutory late interest and late interest already settled by INA on the basis of the judgment of the Commercial Court in Zagreb no. P-2969/97, and should not have a material adverse effect on the business of INA Group. As a result of a separate litigation, the first and second instance courts have already established that judgment no. P-2969/97 was not a valid decision as it was passed in litigation conducted between parties (Ljubljanska Osnovna Banka Zagreb and Oil Refinery Rijeka) that had been removed from the court register and therefore did not exist at the time of the judgment. This fact should have a significant influence on further proceedings brought by Ljubljanska banka d.d.

Veronika d.o.o. claim

The litigation initiated by Veronika d.o.o. Zagreb against INA is currently before the Commercial Court of Zagreb. It is an action for damages, including loss of profit, amounting to HRK 40 million. According to the plaintiff, INA interrupted the gas supply to Veronika d.o.o., which resulted in the destruction of flowers and plants. The outcome of this litigation depends on the ability of INA to prove whether it was entitled to interrupt the gas supply due to unpaid invoices. In the proceedings to date, the first instance court ruled twice in favor of the plaintiff. However, both judgments were overturned by second instance rulings. The next hearing is scheduled for November 2006.

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

An interruption in gas supply is also the basis of the litigation initiated in 1997 before the Commercial Court in Zagreb by three subsidiaries of Uljanik d.d. (Uljanik Strojogradnja d.d., Uljanik Tesu d.d. and Uljanik Brodogradilište d.d.). Each has filed claims against INA for losses arising in connection with ship production, mainly resulting from obligations of the claimants to settle penalties accrued from their inability to deliver ships to their buyers on time. The claimants have not presented documentation which would support their claim of HRK 11.3 million (initially the law suit was filed for HRK 22 million but Uljanik d.d. withdrew its part of the claim).

Katran d.d. claim

The outstanding dispute initiated by Katran d.d. Zagreb against INA before the Commercial Court in Zagreb in 2003 for damages in the amount of HRK 14.4 million arises from the difference in prices stipulated under sales contracts for bitumen and regular prices invoiced by INA to Katran d.d. In spite of INA's efforts to resolve the matter, the litigation is still awaiting a first instance decision. According to an expert opinion dated 1 September 2005, the difference in the prices of delivered bitumen of INA and the supplier MGP d.d. amounted in the period in question to only HRK 2.6 million.

Drago Jurišić claim

The entitlement of INA to validly use a petrol station in Slavonski Brod on the basis of the lease agreement entered into by INA and Energopetrol Sarajevo in 2001 was brought before the Municipal Court in Slavonski Brod by Mr. Drago Jurišić. The plaintiff claims conveyance of possession of the petrol station on the basis of his ownership right registered at the land registry. The value of the dispute is HRK 20 million, although its subject-matter is a non-monetary claim for conveyance of the petrol station, which is not owned by INA.

Mimal 94 d.o.o. claim

A claim brought by Mimal 94 d.o.o. against INA is currently pending before the Commercial Court in Zagreb. The claim is for the delivery of 2.7 MMt of oil or payment of its value on the date of the first instance decision. The value of the claim was determined to be HRK 20 million. The plaintiff has filed the claim on the basis of a supply agreement, yet has so far been unable to provide documentation to evidence the business relationship between the parties. INA believes that the claim will be rejected by the Commercial Court in Zagreb.

INA as plaintiff

Claims against Lukoil-Beopetrol and Transjugšped

Three claims have been brought before the competent courts in the Republic of Serbia relating to INA's former property in the Republic of Serbia, of which two are of a value in excess of HRK 10 million. The claim against Lukoil-Beopetrol and Transjugšped is for recognition of INA's title over business premises across an area of 1,260m^2. In the value of this claim is €2 million. A separate claim has been brought against Lukoil-Beopetrol in the Republic of Serbia for recognition of INA's title over 170 retail stations and a large number of storage depots and other facilities and damages in the amount of U.S.$91 million. The property was appropriated from INA in 1989, when the employees of INA's former organizational parts (so-called "organizations of associated work") in Belgrade and Novi Sad incorporated a separate company (Beopetrol) with assets which formerly belonged to INA. Further developments in this litigation depend heavily on bilateral agreements between the two countries which may be entered into in the future.

Claims against INA's debtors

Litigation involving INA as plaintiff primarily arises from non-payment of natural gas or oil delivered by INA. In this respect, INA has brought claims against Toplina d.o.o. Slovonski Brod for HRK 12.7 million before the Commercial Court in Slovonski Brod and two enforcement proceedings on the basis of final and enforceable decisions against INA BH d.d. Sarajevo for an amount of U.S.$6 million, before the Commercial Court in Zagreb. Due to financial difficulties of these companies full recovery of these debts is uncertain.

Claims for damages compensation

INA and Holdina (Guernsey) vs. Mr. Pavel Uroda

INA and Holdina (Guernsey) instituted litigation against Mr. Pavel Uroda, former director of INA's representative office in Moscow, for damages in the amount of U.S.$16 million. Mr. Pavel Uroda had, during his involvement in the White Nights transaction, undertaken certain actions that led to the withdrawal of one of the potential buyers of White Nights, causing financial loss to INA. The litigation has been pending before the Municipal Court in Zagreb since 2004 under the case number P-10312/04. In the first instance proceedings to date the court has heard witness evidence. A new hearing has been scheduled for February 2007 when further witness evidence will be heard.

INA vs. Mr. Tade Vukušić

In a separate legal matter, INA instituted litigation against its former storage manager in Split, Mr. Tade Vukušić, to recover losses of HRK 18 million, resulting from the fraudulent behaviour of Mr. Vukušić, who changed the prices of goods at INA's storage facilities and delivered goods to buyers for considerably lower prices. This action for damages was brought before the Municipal Court in Split, but has been temporarily suspended until the criminal proceedings brought against Mr. Tade Vukušić are finally resolved.

INA vs Hrvatska Radioletevizija (Croatian National Radio-Television)

INA commenced proceedings against Hrvatska Radioletevizija in the Municipal Court in Zagreb in July 2006 for damages in the amount of HRK 264.7 million, based on a decrease in sales of "Super" gasoline and other types of gasoline and on the damage to INA's reputation. The claim was brought under the Media Law on the basis of the presentation of false information relating to "Super" gasoline by Hrvatskaradioletevizija d.d. in its television show "Otvoreno".

Administrative disputes related to tax liabilities

INA vs. Ministry of Finance of the Republic of Croatia

Following a VAT tax inspection in 2003, the Ministry of Finance of the Republic of Croatia determined that INA had miscalculated the amount of VAT it owed in respect of oil production at the Sisak refinery because its production shortages exceeded the quantity of allowed technological shortages, which are not subject to VAT. All shortages exceeding approved technological shortages are regarded as own consumption and are subject to VAT.

The first instance tax authority declared INA liable to pay to the state budget VAT in the total amount of HRK 114.7 million in respect of the 2000 and 2001 financial years, plus HRK 65.4 million by way of default interest calculated until 20 January 2005. In the subsequent appeal, the Faculty of Chemical Engineering and Technology determined, contrary to the findings of expert witness Mr. Branko Holzer, that the refinery had not exceeded the allowed technological shortages. At second instance, the Ministry of Finance annulled the first instance decision due to procedural reasons, but in chapter III of its decision determined that because the production shortages exceeded the quantity of allowed technological shortages at the Sisak refinery, INA was liable to pay to the state budget VAT in the amount of HRK 73.3 million for the 2000 and 2001 financial years plus HRK 50.7 million of default interest. On 19 May 2006, INA filed an administrative suit against the second instance decision at the Administrative Court of the Republic of Croatia for annulment of the chapter III decision of the Ministry of Finance of the Republic of Croatia. The claim submitted under US-76/06 is still pending.

Holdina Sarajevo vs. Federal Ministry of Finance of Bosnia and Herzegovina

Following a tax inspection that commenced in February 2002, the tax authorities of Bosnia and Herzegovina established in a first instance decision dated 15 November 2005, in relation to Holdina Sarajevo, a "fictive company" tax liability in the amount of KM 13,253,284.13 (approximately €6.6 million) for the period from 1 January 2001 to 10 February 2002. Pursuant to the final decision 07-15-626/2005 issued on 24 January 2006, following Holdina Sarajevo's appeal, the Federal Ministry of Finance of Bosnia and Herzegovina annulled both of the tax authorities' decisions, including the decision dated 15 November 2005. The final decision accepted the merits of Holdina Sarajevo's appeal, but an undefined part of the case was sent back for a second time to the first instance authorities for a re-trial. However, the explanatory section of the final decision accepted Holdina Sarajevo's tax liability, but without indicating its exact amount. Since part of the final second instance decision is partially contrary to the explanatory part of the decision, Holdina Sarajevo has lodged an appeal against the final decision at the Canton Court Sarajevo. This administrative dispute is ongoing. At first instance, the decision of the Ministry of Finance of Bosnia and Herzegovina was interpreted such that enforcement proceedings were initiated for approximately €1.5 million. The remainder (€5.1 million) is again the subject of new proceedings. Although Holdina Sarajevo has appealed against the enforcement of the first instance decision, this cannot postpone such enforcement.

INA BH d.d. vs. Federal Ministry of Finance of Bosnia and Herzegovina

Since September 1996 and March 1998, INA BH d.d. Sarajevo ("INA Sarajevo") has been involved in administration proceedings and an administrative dispute relating to corporate tax and sales tax pursuant to the decision of the tax authorities of the Canton Office Sarajevo. According to calculations made on the basis of the tax authorities' decision, INA Sarajevo's liability relating to payment of public revenues (default interest) amounts to KM 3 million (€1.5 million), while according to calculations made on the basis of a financial inspection, INA Sarajevo's liability relating to payment of public revenues amounts to KM 29.3 million (€14.5 million). The first instance decision was annulled by the Supreme Court of the Federation of Bosnia and Herzegovina in a ruling dated January 2005, and the case has been sent for a re-trial. The new inspection commenced in September 2006. According to the expert report of the Economic Institute of Sarajevo and the audit report of ZPS-AUDIT Sarajevo, INA Sarajevo has no liability relating to payment of public revenues, and has in fact made excess payments.

Arbitration procedures

Duraid Hassan Partner, Jordan co. vs. INA arbitration

In 2004, Duraid Hassan Partner commenced arbitration before the International Chamber of Commerce in Paris against INA for damages of U.S.$5 million, due to the alleged breach of an agreement dated July 2001. Pursuant to this agreement, INA hired Duraid Hassan to deliver crude oil. However, the delivery was never performed, due to INA's failure to meet its contractual obligations regarding deadlines for placement of orders and obtaining a required letter of credit for payment of the price of crude oil. In the proceedings to date, witness evidence has been heard. At the next hearing, further witness and expert evidence will be heard. The decision of the arbitration tribunal is still pending, but is expected in the first half of 2007.

Holdina Guernsey Limited vs. PBS

Arbitration proceedings commenced following Holdina Guernsey Limited's claim of December 2002 against Personal and Business Solutions ("PBS") in relation to the sale by Holdina Guernsey Limited of Siberian Energy Investments Limited to PBS, pursuant to a share purchase agreement entered into in July 2002. In arbitration, Holdina Guernsey Limited is seeking the release of the escrow funds (the full amount being U.S.$20 million), representing a portion of the purchase price paid as a security for claims (as defined in the share purchase agreement) made by PBS. A partial award was published in July 2005, following which PBS paid Holdina Guernsey Limited U.S.$10 million out of the escrow funds. Title to the balance of the escrow funds (being U.S.$10 million) remains disputed and the arbitration is ongoing.

Crosco vs. Lone Star Energy

Crosco Integrated Drilling & Well Service Co. Ltd. commenced two arbitrations before the International Chamber of Commerce in London in respect of two sets of claims against Lone Star Energy (later renamed Maghreb Petroleum Exploration, "MEP") under drilling contracts dated January 2000 (Contract EMSCO 604) and October 2000 (Contract Zagreb 1). Both contracts which were terminated by Crosco. According to the final decision, MEP is obliged to pay Crosco U.S.$2.5 million in connection with liabilities arising out of Contract EMSCO 604 and U.S.$11.9 million in connection with Contract Zagreb 1, in total an amount of U.S.$20 million which includes late (default) interest. The procedure of recognition of the decision of the International Chamber of Commerce by Morocco's competent court is currently pending.

Bankruptcy proceedings

INA is involved in several bankruptcy procedures against its debtors, in which INA reported claims in excess of HRK 10 million. Primarily, INA d.d.'s reported claims have been recognized. However, the recovery of these claims remains unlikely due to a lack of bankruptcy estate of the bankruptcy debtors.

INA's claims exceeding HRK 10 million are in relation to the following ongoing bankruptcy procedures: against Komus d.o.o. Donja Stubica (HRK 74 million), against Energopetrol — Zagreb d.o.o. (HRK 20.3 million), against HIRS d.d., Slavonski Brod (HRK 21 million), against TAM Bus d.d. Maribor (HRK 15 million) and against Rijeka nafta d.o.o., Rijeka (HRK 15.8 million).

MANAGEMENT

General

INA's management structure is based on a two-tier board system, comprising a Supervisory Board and a Management Board. With the General Assembly, these constitute the three mandatory internal bodies of INA in accordance with INA's Articles of Association and the Companies Act.

The Supervisory Board is responsible for the appointment and removal of Management Board members and their supervision.

The Management Board manages the business operations of INA on a day-to-day basis. It is empowered to enter into transactions on INA's behalf and reports to the Supervisory Board on issues regarding the future performance of INA's business activities, INA's business operations, profitability and revenues, as well as on other issues of significance for INA. The Management Board keeps track of the results of business activities through daily, monthly, and quarterly management accounts and annual reports, and ensures the availability of the resources necessary for the achievement of INA's objectives and plans.

Supervisory Board

Pursuant to INA's Articles of Association, the Supervisory Board should, generally, consist of seven members, although there are currently only six. Four members of INA's Supervisory Board are currently representatives of Croatia, while two are representatives of MOL. Under INA's Articles of Association, one member of the Supervisory Board is to be elected by INA employees pursuant to Croatian Labor Law. However, no such member has as yet been elected.

The term of office of each Supervisory Board member is four years and may be renewed.

For a more detailed discussion of the required composition and responsibilities of the Supervisory Board, see "Description of Share Capital and Summary of Articles of Association — Supervisory Board".

The table below shows the current members of the Supervisory Board and their respective positions. The business address for all members of the Supervisory Board is Avenija V. Holjevca 10, 10002 Zagreb, Croatia.

Name	Year of birth	Position	Date of election	Expiry of term
Ivan Šuker	1957	President (Croatia nominee)	11 March 2004	11 March 2008
Zoltán Sándor Áldott	1970	Vice President (MOL nominee)	28 October 2003	28 October 2007
György Imre Mosonyi.	1947	Member (MOL nominee)	28 October 2003	28 October 2007
Damir Polančec	1967	Member (Croatia nominee)	02 May 2005	11 March 2008
Tomislav Ivić	1961	Member (Croatia nominee)	02 May 2005	11 March 2008
Đuro Dečak	1952	Member (Croatia nominee)	06 June 2006	11 March 2008

The principal function, management expertise and experience of each of the members of the Supervisory Board are set out below.

Mr. Ivan Šuker (49) of Velika Gorica, Kneza Ljudevita Posavskog 7, Croatia, is the Minister of Finance of the Government of Croatia. In 1983, he graduated with a degree in Economics from the Faculty of Economy, University of Zagreb. From 1984 to 1986, he was the chief accountant in the Budget Sector in Velika Gorica, from 1986 to 1990, he was a financial director in Velika Gorica and from 1990 to 2000, he was Head of the Tax Administration in Velika Gorica. In 2000, he was elected as a member of the Croatian Parliament. In 2002, he was elected Deputy Chairman of the HDZ (the Croatian Democratic Union), and in 2003 he was appointed Minister of Finance of the Government of Croatia.

Mr. Zoltán Sándor Áldott (36) of H-1143 Budapest, Utazs u. 9, Hungary, is the President of Exploration & Production at MOL Group. He was the INA Group Chief Strategy Officer at MOL from June 2001 until September 2004. He graduated from the Budapest University of Economic Sciences in 1991 with a degree in Economics. From 1990 to 1991, he worked at Creditum Financial Consulting Ltd. From 1992 to 1995, he held various positions at

Eurocorp Financial Consulting Ltd. From 1995 to 1997, he headed the Privatization department of MOL; from 1997 until 1999, he was the director of the Capital Market department of MOL. Since 1999, Mr. Áldott has served as the Director of Strategy and Business Development and from 2004, he has acted as the President of Exploration & Production of MOL Group. He is the Vice-Chairman of the Supervisory Board of INA, a member of the Board of Directors of ZMB and a member of the Board of Directors of the Budapest Stock Exchange.

Mr. György Imre Mosonyi (59) of H-1029 Budapest, Harasalja u. 26, Hungary, has been MOL's Group Chief Executive Officer and a member of the Board of Directors since 19 July 1999. Mr. Mosonyi graduated from the Faculty of Chemical Engineering of Veszprém University in 1972. From 1974, he worked for the Hungarian Agency of Shell International Petroleum Co. and from 1986, he held the position of commercial director. In 1991, he worked at the Shell headquarters in London. Between 1992 and 1993, he was the managing director of Shell-Interag Kft. Between 1994 and 1999, he was Chairman and Chief Executive Officer of Shell Hungary Rt. During this period, he became the Chairman of Shell's Central and Eastern European Region and, in 1998, the Chief Executive Officer of Shell Czech Republic. He is the Chairman of TVK Rt. and the Chairman of the Board of Directors at AEGON Hungary Általános Biztosító Rt., a member of the Supervisory Board of INA, the honorary President of the Association of Joint Ventures and the chairman of the Hungarian Chamber of Commerce and Industry.

Mr. Damir Polančec (39) of Koprivnica, Oružanska 12/a, Croatia, is Vice Prime Minister of the Government of Croatia, entrusted with economic matters. He graduated in 1992 from the University of Zagreb, Faculty of Agronomy, Department of Agro-Economy. He has worked in Podravka, the leading Croatian food producer, since his graduation. For his first two years at Podravka, he was in charge of the business segment responsible for purchasing produce. In September 1997, he was appointed director of central procurement in Podravka, a position he held for three years. Since March 2000, he has been a Member of the Board of Podravka, in charge of market development and material management in Croatia and South Eastern Europe. In August 2003, he was appointed as a member of the board of Podravka in charge of international markets in Central and East Europe and overseas countries. In this role, he established and led a co-operation project with Nestlé, whose products are distributed by Podravka on the markets of South Eastern Europe. He completed a program in General Management at the Center Business School in Brdo kod Kranja, Slovenia and currently attends the Graduate School of Organization and Management at the Faculty of Economy in Zagreb and is studying for a Professional Diploma in Retailing Management — Leeds Metropolitan University.

Mr. Tomislav Ivić (45) of Dobriše Cesarića 65, Valpovo, Croatia, has been a State Secretary in the Ministry of the Family, Veterans' Affairs and Intergenerational Solidarity of Croatia since 2004. From 1990 to 1992, he was a member of the Croatian Army. In 1992, he graduated from the University of Zagreb, Faculty of Political Science. From 1993 to 2004, he was the city mayor of the town of Valpovo (Slavonija).

Mr. Đuro Dečak (54) of Zrinski vrt 19, Virovitica, Croatia, was elected as a member of the Supervisory Board in June 2006 following the acquisition of a stake in INA by the War Veterans' Fund. He graduated from the Faculty of Economy, University of Osijek with a degree in Economics. Mr. Dečak was a member of the Croatian Parliament from 2000 to 2003.

Management Board

Pursuant to INA's Articles of Association, the Management Board consist of seven members, and is appointed and dismissed by the Supervisory Board. Of the Management Board's current seven members, five were nominated by Croatia and two were nominated by MOL, pursuant to the Shareholders' Agreement between Croatia and MOL.

The Management Board has a president and may also have a vice president, both of whom are nominated and may be removed by the Supervisory Board. The Supervisory Board decides on the term of office of the members of the Management Board, but such term may not exceed four years. The members of the Management Board can be re-appointed.

For a more detailed discussion of the required composition and responsibilities of the Management Board, see "Description of Share Capital and Summary of Articles of Association — Management Board".

The table below shows the current members of the Management Board and their respective positions. The business address for all members of the Management Board is Avenija V. Holjevca 10, 10002 Zagreb, Croatia.

Name	Year of birth	Position	Date of election	Expiry of term
Tomislav Dragičević	1952	President (Croatia nominee)	29 October 2003	29 October 2007
László Geszti[1]	1951	Executive Director of Finance (MOL nominee)	29 October 2003	29 October 2007
Josip Petrović	1952	Executive Director of Refining & Wholesale (Croatia nominee)	26 July 2004	26 July 2008
Niko Paulinović	1947	Executive Director of Retail (Croatia nominee)	5 May 2006	26 July 2008
Tomislav Thür	1967	Director of Corporate Processes (Croatia nominee)	26 July 2004	26 July 2008
Mirko Zelić	1936	Executive Director of Exploration & Production (Croatia nominee)	26 July 2004	26 July 2008
Zalán Bács[1]	1968	Director of Corporate Services (MOL nominee)	1 February 2005	1 February 2009

Note:

(1) With effect from 1 January 2007, Mr. Geszti will move back to MOL, and will be replaced in his role as Executive Director of Finance by Mr. Bács. MOL's new nominee for the Management Board will be announced in due course.

The principal function, management expertise and experience of each of the members of the Management Board are set out below.

Dr. Tomislav Dragičević (54) of Rockefelerova 57, Zagreb, Croatia, graduated from the Faculty of Chemical Engineering, University of Zagreb in 1977. In 1984, he got his master's degree, and in 1993, his doctorate in chemical engineering. Dr. Dragičević was appointed as General Director of INA in March 2000. From June 2000, following implementation of the new Articles of Association, he became the President of the Management Board. Prior to his current appointment, Dr. Dragičević held several positions with INA, including Director of Strategic Planning and of the Research and Development Sector and as Director of Refining. He joined INA in 1982 and before that served as Head of a Processing Unit in a petrochemical plant. Since 1995, he has been a Fellow of the Croatian Academy of Science and Art, in Section IV, Petrochemistry.

Mr. László Geszti (55) of H-1033 Budapest, Kazal u. 9, Hungary, received his bachelor's degree from the College of Foreign Trade in Budapest in 1974. He graduated from the University of Economics in Budapest in 1981, receiving a master's degree in economics. From 1985 to 1992, he was Chairman and President of the Business Board of Interag, Director of the Retail Network for Shell and was the exclusive representative of Shell International in Hungary. He also worked as a business advisor for the National Trade and Credit Bank Co. from 1992 to 1993, and for Mineralimpex Rt. from 1993 to 1997. He also served as the Sales Director of Moltrade-Mineralimpex Rt. from 1997 until 1999. In 1999, he became the Chief Sales Manager of MOL and in 2001 the Chief Refining and Marketing Manager. He has acted as INA's CFO since 2003.

Mr. Josip Petrović (54) of Šljivik 3/f, Zagreb, Croatia, graduated from the Faculty of Economics at the University of Zagreb and received his master's degree in marketing in 1992. He joined INA in 2004 as a member of the Management Board and as Executive Director of Retail Services. In August 2005, he became Executive Director of the Refining & Wholesale business segment. Prior to joining INA, Mr. Petrović had been the Chief Advisor to the President of the Board of Agrokor Group since April 2000. This followed several managing positions at Agrokor since 1995. From 1998 to 2000, Mr. Petrović was also the Chairman of the Board of the Intercontinental Hotel Zagreb. He started his career in marketing and advertising, reaching the position of General Director of Unikonzum, a leading national retail and wholesale chain.

Mr. Niko Paulinović (59) of Gračanska cesta 127/B, Zagreb, Croatia graduated from the Faculty of Law in Zagreb in 1973. He has been a Member of the Management Board and the Executive Director of the Retail Services Sector of INA since 5 May 2006. Prior to his current position, Mr. Paulinović was Director of the Retail Sale Network Management Sector. He has extensive experience in the retail of petroleum products. In 2001, he was Advisor to the Executive Director for Refinery Refinement and Wholesale, and between 2004 and 2005, he served as the Assistant Director of Commercial Activities Sector in INA-Naftaplin. From 1985 to 2001, he served in various management positions within the Retail Sales Sector of INA, including a term as the Director of the INA-Trgovina Business Centre in Zagreb from 1995 to 2000.

Mr. Tomislav Thür (39) of Vlaška 70/b, Zagreb, Croatia, graduated from the Faculty of Law at the University of Zagreb in 1991 and, in 1998, he obtained his master's degree at Harvard Law School. He joined INA in 2004 as the Director of Corporate Processes and as a member of the Management Board. Prior to his appointment at INA, Mr. Thür was the General Secretary of Atlantic Group, which he joined in 2001. From May 1992 to 2001, he was employed in the Croatian Ministry of Foreign Affairs and served in a number of high-level diplomatic posts at the Croatian Embassy in Switzerland, with the Croatian mission at the UN office in Geneva, at the Croatian Embassy in Washington D.C. and as Head of the National Coordinator's Office for the Stability Pact for South Eastern Europe.

Professor Mirko Zelić, Ph.D (70) of Fra Filipa Grabovca 26, Zagreb, Croatia, graduated from the Mining and Petroleum Engineering Faculty at the University of Zagreb in 1964 and earned his doctorate from the same Faculty in 1982. On 26 July 2004, he was appointed as a member of the Management Board and as Executive Director of Oil and Gas Exploration & Production. He began his career at INA-Naftaplin in 1964, and has performed various professional functions (such as independent engineer, head of the Oil and Gas Production Department, Director of the Oil and Gas Production Sector, and Assistant to the Executive Director of INA-Naftaplin). Professor Zelić is a full time professor at the Mining and Petroleum Engineering Faculty at the University of Zagreb, and is the author of five books, over 40 scientific and professional papers, and a set of innovations and one patent in the field of oil mining. Since 2000, Professor Zelić has been a full member of the Croatian Academy of Sciences and Arts (HAZU), where he serves as the Secretary of the Department of Technical Sciences, the President of the Scientific Council for Oil and is a member of the Presidency of HAZU. He is also the President of the Croatian Society of Petroleum Engineers and Geologists (HUNIG).

Mr. Zalán Bács (38) of Piliscsaba Berc köz 20/43, Hungary, graduated from the Technical Faculty in Budapest with a degree in chemistry in 1990. He earned his master's degree in 1992 from Napier University in Scotland and his MBA from the Faculty of Economics in Budapest in 1994. From 1992 to 1995, he worked as a project manager in MOL and from 1994 to 1995, as a consultant for Arthur D. Little in London. He became general manager of MOL Romania in 1996, and from 1997 to 2000, served as director of the Resources Sector at MOL. From 2000 to 2003, he was director of the Controlling Sector of the MOL Group. Before becoming a member of the Management Board and Director of Corporate Services, he worked as Financial Director of a leading chemical company, TVK, which is also an MOL Group member.

For further details on INA's Supervisory and Management Boards and its General Assembly, see "Principal and Selling Shareholders and Related Party Transactions" and "Description of Share Capital and Summary of Articles of Association".

Other Management

The principal functions, management expertise and experience of each of the members of Senior Management of INA as of the date of this Prospectus are set out below.

Mr. Željan Simeonov (46) graduated from the Faculty of Economics at the University of Zagreb, in 1984 and started his career at INA in 1986, in the Polystyrene factory DOKI (Joint venture Dow Chemical – INA OKI). Since 1998, he has held the position of Director of the Planning and Controlling Sector and is in charge of coordinating the process of corporate planning, reporting and analysis for INA Group. From 2002 to 2004, the Accounting and Tax department was integrated into the Sector. During the period February to May 2004, Mr. Simeonov simultaneously managed the Resource Allocation Sector during its introduction. Mr. Simeonov was in charge of coordination of operational processes during the first phase of INA's privatization (2002 to 2003) and participated in the due diligence process on behalf of the Controlling Department. Mr. Simeonov is the team leader of the INA Operative Team for the second phase of INA's privatization (2005 to 2006).

Mr. Ratko Marković (54) graduated from the Faculty of Economics at the University of Zagreb. He started his career at INA in 1989 as a Manager in Internal Audit and Control. Prior to joining INA, he worked as an external auditor, an external inspector in tax controls, an internal audit and control manager and an auditing and tax manager in OKI (organic chemical industry). Since 1993, he has held the position of Director of Accounting and Tax Sector. Mr. Marković is a member of the Working Group for the "*acquis communautaire*" chapter on taxes in the context of the accession negotiations of the Republic of Croatia to the EU. In addition, Mr. Marković was several times a member of the core team for amendment of law regulations of the Republic of Croatia.

Mr. Dominik Horvat (60) graduated from the Faculty of Economics at the University of Zagreb in 1970. He has worked at INA since 1973 in various financial roles. From 1998 to 2000, he was Financial Advisor to the Executive

Director of the Refining & Wholesale business segment. Since 2000, Mr. Horvat has held the position of Director of the Treasury Sector.

Mrs. Lidija Bertović (38) graduated in Chemistry/Teaching from the Faculty of Science at the University of Zagreb. In 2003, she received her master's degree in Environmental Analytical Sciences from Robert Gordon University, Aberdeen, Scotland. Mrs. Bertović joined INA in 2005 as an advisor to the Board members and currently holds the position of Director of the Health, Safety and Environmental Department. Prior to working at INA, Mrs. Bertović worked at Schlumberger Research & Development Group, Aberdeen, Scotland and in the instrumental analytical environment, Robert Gordon University, Aberdeen. Mrs. Bertović is a member of the Working Group for the *"acquis communautaire"* chapter on environment in the context of the accession negotiations of the Republic of Croatia to the EU.

Mr. Vladislav Brkić (39) graduated from the Faculty of Mining, Geology and Petroleum Engineering at the University of Zagreb. Since 1993, he has worked in INA's Exploration & Production business segment and at present he is a Director of the Oil and Gas Production Sector Exploration & Production Division. Mr. Brkić has registered a patent for new technology for waste disposal by deep well injection and has contributed several innovations to the exploration and production field of the petroleum industry.

Mr. Josip Križ (65) graduated from the Faculty of Mining, Geology and Petroleum Engineering of the University of Zagreb. Mr. Križ started his career in INA in 1970 in the Exploration Department, carrying out seismic data interpretation. Since then he has been promoted several times: from 1996 until the end of 1999, Mr. Križ was General Manager of the INA Branch Office in Libya and until July 2000 he worked as Geological Exploration Expert in the Foreign Operations Department. Currently, Mr. Križ is the Director of the Exploration Sector.

Mr. Minko Perić (49) graduated from the Faculty of Economics at the University of Zagreb in 1997. Mr. Perić started his career at INA in 1995 as a wholesale clerk of Commerce and was gradually promoted to Regional General Manager. In 2006, he was appointed director of the Retail Network Management Sector. Mr. Perić also holds the Internal Audit certificate, ISO 2001.

Mrs. Adriana Petrović (57) graduated from the Faculty of Technology at the University of Zagreb in 1974. Since 2004, she has been the Director of Supply Chain Management in the Refining & Wholesale business segment. Mrs. Petrović started her professional career at INA in 1975 in the Production Department, working on material balancing and production planning. Mrs. Petrović was also manager of the Planning, Optimization and Accounting Department of the Rijeka refinery for several years.

Mr. Nikola Blažević (55) graduated from the Faculty of Technology at the University of Zagreb in 1975. In 1990, he received his master's degree in Chemical Process Engineering from the Chemical Engineering Faculty, University of Zagreb. Since 2004, he has been Director of Refining in the Supplies and Refining and Wholesale of Oil Derivatives Division. Mr. Blažević started his career at the Refinery Rijeka, where he held various positions including Refinery Director.

Mrs. Željka Velić-Dvorščak (53) graduated from the Faculty of Law at the University of Zagreb, Croatia in 1976 and passed the Croatian Bar exam in 1977. In 1980, she obtained a master's degree in Commercial and Company Law from the Faculty of Law, University of Zagreb. From 1976 to 1982, she worked as an Assistance Judge on the District Court in Zagreb. From 1982 to 2002, she worked at INA as legal advisor on international matters in the Exploration & Production business segment. Since 2002, she has worked as General Counsel and Director of the Legal Affairs Sector. In 2005, Mrs. Velić-Dvoršćak became a Member of the Permanent Arbitration Court and Conciliation Centre at the Croatian Chamber of Commerce.

Mr. Ante Todorić (47) graduated from the Faculty of Civil Engineering at the University of Zagreb. From 1985 to 2004, Mr. Todorić worked in various high level positions in construction and inspection, as well as financial controlling. In 2005, he moved to STSI — Integrated Technical Services, taking the role as president of the management board.

Mr. Bojan Milković (46) graduated from the Faculty of Mechanical Engineering and Naval Architecture at the University of Zagreb. Mr. Milković currently holds the position of President and Chief Executive Officer of Crosco Integrated Drilling and Well Services Ltd. He began his career at INA in 1985 as a senior mechanical engineer in the Exploration & Production business segment. In 1996, he moved to Crosco Ltd. as a maintenance manager.

Remuneration of Members of Supervisory and Management Boards and Senior Management

Pursuant to INA's Articles of Association, the Supervisory Board concludes service contracts with the members of the Management Board for a term determined by the Supervisory Board, not to exceed four years. In practice, only members of the Management Board nominated by Croatia are employed by INA, while the members of the Management Board nominated by MOL remain employed by MOL, which then charges INA for their services.

Members of the Management Board (other than those nominated by MOL) have service contracts in accordance with the INA Group's standard contract and employment policies. These provide that upon termination of employment, if an employee has been employed for more than one year, they are entitled to receive a payment which cannot exceed three years' salary.

Remuneration of Management Board Members

The amount of remuneration paid by INA to Tomislav Dragičevič, the President, in 2005 was HRK 1,733,306 and in 2006, he was paid a monthly base salary of HRK 118,836.

The amount of remuneration paid by INA to Josip Petrović, the Executive Director of Refining & Wholesale, in 2005 was HRK 962,952 and in 2006, he was paid a monthly base salary of HRK 62,635.

Niko Paulinović was appointed to the role of Executive Director of Retail in May 2006. He was therefore paid no remuneration in relation to this role in 2005. The aggregate remuneration paid to his predecessors in this role, in 2005, was HRK 948,675. In 2006, Mr. Paulinović was paid a monthly base salary of HRK 56,660.

The amount of remuneration paid by INA Group to Tomislav Thür, the Director of Corporate Processes, in 2005 was HRK 766,006 and in 2006, he was paid a monthly base salary of HRK 49,207.

The amount of remuneration paid by INA to Mirko Zelić, the Executive Director of Exploration & Production, in 2005 was HRK 1,101,633 and in 2006, he was paid a monthly base salary of HRK 66,774.

The members of the Management Board nominated by MOL, being the Director of Finance and the Director of Corporate Services, were not paid any remuneration by INA Group in the three year period ended 31 December 2005.

See also "— Remuneration of Management Board Members and Senior Management from INA Group".

Remuneration of Supervisory Board Members

Pursuant to INA's Articles of Association, members of the Supervisory Board are entitled to remuneration for their work. This remuneration is determined by the General Assembly. Members of the Supervisory Board do not receive any payments or benefits when their position on the Supervisory Board is terminated or comes to an end.

However, pursuant to the law on prevention of conflict of interest in performing public duties, officials are not entitled to remuneration for their membership of the supervisory boards of companies of interest for the state, save for reimbursement for travel and other costs. Therefore, those members of INA's Supervisory Board who are deemed to be state officials did not receive remuneration for their membership of the Supervisory Board of INA in 2003, 2004 or 2005. All members of the Supervisory Board other than the representatives of MOL and Mr. Duro Dečak are state officials. Mr. Dečak, who was appointed in June 2006, receives remuneration of approximately HRK 20,000 per month.

Furthermore, MOL's business policy stipulates that representatives of MOL who are members of supervisory boards of companies in which MOL is a shareholder shall not receive any remuneration from the company in question. Therefore, members of INA's Supervisory Board nominated by MOL did not receive remuneration from INA for being on the Supervisory Board in 2003, 2004 or 2005.

Remuneration of Management Board Members and Senior Management from INA Group

In addition to the remuneration Management Board members receive from INA as described above (see "— Remuneration of Management Board Members"), the members of the Management Board, other than those nominated by MOL, receive remuneration and benefits from INA Group in their capacity as senior management of the INA Group.

The aggregate remuneration paid (including benefits): (i) by INA Group companies (in addition to the remuneration paid by INA, as described above) to members of the Management Board was HRK 1,420,548 in 2005; and (ii) by INA Group to the Senior Management in 2005 was HRK 6,336,302.

Interests of Members of the Supervisory Board and Management Board

The current members of the Supervisory Board, Management Board and Senior Management do not own any shares in INA.

Board Committees

The Management Board has three permanent committees: the Human Resources and Nomination Committee, the Finance and Investment Committee, and the Tendering Committee. Other than as described below, the committees do not have decision making powers, but they form opinions and make non-binding proposals to the Management Board on certain issues described in the Committees' operating rules.

The Human Resources and Nomination Committee is headed by the President of the Management Board and has four members; two members are nominated by representatives of Croatia and two by the representatives of MOL. The Committee's purpose is to support INA Group's operations, to ensure consistency with international standards and to promote the efficient operation of the Company. The Committee is responsible for making proposals including the nomination, removal and remuneration of the managers and directors of INA, and the nomination, removal and remuneration of the members of the Supervisory Boards of the subsidiaries operated by INA.

The Finance and Investment Committee is headed by INA's Chief Financial Officer ("CFO") and has six members. Three are nominated by representatives of Croatia and three by the representatives of MOL. The Committee's purpose is to enhance the efficiency of INA Group's finance, investment, risk management and auditing processes. The Finance Committee is responsible for, *inter alia*, providing opinions on all project proposals and reviewing project implementations, especially focusing on large projects reviewing the annual budget and strategic plan before submission to the Management Board, and evaluating potential business development possibilities.

The Tendering Committee is headed by INA's Director of Corporate Processes; its other members are the Director of the Refining & Wholesale business segment, the Director of Corporate Services and the CFO. The Tendering Committee's responsibilities include, *inter alia*, making proposals for the initiation of major procurement tenders, shortlisting for contractors and selecting winning contractors, and setting main contractual conditions (e.g., price). The Tendering Committee also decides on the tendering and short listing of contractors, and selects winning contractors for procurements (save for hydrocarbon procurement) where the total contract value of the procurement does not exceed U.S.$20 million. The Tendering Committee must pass its decisions by at least three affirmative votes of its members.

The Supervisory Board can also appoint the Commission for Preparation and Control. The Commission consists of three members of the Supervisory Board, one of whom is appointed as president. The Commission prepares materials so that the Supervisory Board can pass decisions and conclusions in accordance with the laws and provisions of INA's Articles of Association. The Commission cooperates with the internal audit and control function of INA, as well as with the auditor appointed by the General Assembly for the purpose of auditing INA's financial reports or performing other activities related to the conduct of INA's business. The Supervisory Board can also appoint other commissions for the purpose of preparing the decisions it passes.

Corporate Governance

The new Audit Act requires companies which have listed their shares or are otherwise considered to be of "special interest" to Croatia to establish an audit committee consisting of members of the Supervisory Board and members appointed to the audit committee by the Supervisory Board. See "Regulation — Croatia — Corporate governance in Croatia". INA does not currently have an audit committee, but intends, following its listing, to establish one in order to comply with this requirement. Croatia does not otherwise have a corporate governance regime.

INA intends to take steps towards achieving compliance with international corporate governance best practice. These will include appointing independent members with appropriate expertise to its Supervisory Board in due course. INA also intends to establish board committees, in addition to the audit committee, which will have responsibility for the nomination of Management Board members and executive remuneration.

Conflicts of Interest Statement

Litigation statement about members of the Management and Supervisory Boards

At the date of this prospectus, for at least the previous five years, none of the current members of the Management or Supervisory Boards:

- has had any convictions in relation to fraudulent offenses;

- has held an executive function in the form of a senior executive officer or a member of the administrative, management or supervisory bodies of any company at the time of or preceding any bankruptcy, receivership or liquidation; or
- has been subject to any official public incrimination and/or sanction by any statutory or regulatory authority (including any designated professional body) or has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company.

Except to the extent that members of the Supervisory or Management Boards of INA have, as indicated above, been appointed upon nomination by the shareholders of INA, none of the members nor any of the Senior Management have any private interests or other duties which may potentially conflict with their respective duties to INA.

REGULATION

INA Group in Croatia is subject to legislation and regulations covering virtually every aspect of its business, including matters such as licensing, taxes, royalties, pricing and environmental protection. In addition, the privatization of INA is regulated by the special Law on Privatization of INA, which also determines certain rights attributed to Croatia as a shareholder of INA.

Since the signing of the Stabilization and Association Agreement on 29 October 2001, Croatia has been preparing for membership of the European Union and has been working intensively to align its legislation with the *acquis communautaire* (the "Acquis"). As a result of the formal opening of negotiations with Croatia as a candidate country for accession to the EU on 3 October 2005, the regulatory and environmental issues surrounding INA Group will be increasingly influenced by the EU. In November 2005, the EU published a report which noted that Croatia had made some progress in the area of energy, but remarked that certain aspects required further improvement. These are also set out in detail below.

INA Group is also subject to a broad range of legislation in the other countries in which it operates.

Croatia

Law on Privatization of INA

The Law on Privatization of INA — Industrija nafte d.d. (published in the Official Gazette 32/2002) provides for the privatization of INA to be carried out in phases. Of these, two have already taken place, namely the sale of 25 per cent. plus one share to the strategic investor MOL in 2003, and the transfer, without compensation, of 7 per cent. of the shares in INA to the War Veterans' Fund, in 2005.

The next phase, which is being implemented by way of this Offering, is required to involve the sale of at least 15 per cent. of INA's shares by way of a public offering to: (i) Croatian citizens, with a priority right, preferences and under conditions determined by the Government, and (ii) Croatian legal entities and foreign investors, without any priority right or special preferences. The Government is entitled to decide on the modality of sale, price, time of sale and other conditions of the sale, including special benefits for the sale of shares to Croatian citizens. The Government decided to proceed with the Offering and specified its terms in its decision adopted on 14 September 2006 as further amended.

The remaining phases of the Privatization are as follows:

(1) the sale of a maximum of 7 per cent. of INA shares to present and former employees of INA Group (defined by the Law on Privatization of INA as INA and its wholly-owned subsidiaries), on terms set by the Government;

(2) the sale or swap of the remaining INA shares, in accordance with market conditions, to a strategic investor, or on the capital market, pursuant to the Government's decision, subject to the prior consent of the Croatian Parliament; and

(3) the transfer of certain of the remaining shares to the former owners entitled under the Law on Compensation for Property Expropriated during the Yugoslav communist regime (See "— Croatia — Real estate legislation".)

Pursuant to the Government's decision of 18 April 2002, as amended most recently on 14 September 2006, the sale of a maximum of 7 per cent. of INA shares to present and former employees shall be carried out within six months from the first sale of Shares under this Offering.

All percentages mentioned above refer to INA's share capital prior to the commencement of the privatization process.

The Law on Privatization of INA also provides that Croatia shall retain direct ownership over 25 per cent. plus one share of INA, which stake will be privatized when Croatia becomes a member of the EU in accordance with a separate law, which has yet to be adopted.

All rights pertaining to INA's shares held by Croatia are exercised by the Government on Croatia's behalf, except where this right is granted to the Croatian Parliament instead.

While Croatia is the owner of 50 per cent. or more of INA shares, Government consent will be required for INA or its governing bodies to make decisions or enter into legal transactions relating to any sale, or the entry into any joint venture, with a value exceeding 3 per cent. of the value of INA's assets. While Croatia is the owner of 25 per cent. or more of INA shares, the Government may decide that its consent will be required for any such decisions or transactions with a value exceeding 25 per cent. of the value of INA's assets.

The Government may conclude a separate contract with the strategic investor on the Government's exercise of voting rights pertaining to Croatia's shares and the Government's powers referred to in the previous paragraph, but it cannot transfer the rights and powers mentioned to third parties under such contract.

In addition, while Croatia owns 10 per cent. or more of INA's shares, none of the other shareholders (which would include holders of interests in the Shares) or their related parties may, without the prior special consent of the Government, acquire shares, carrying voting rights at the General Assembly of INA, whose aggregate nominal value exceeds 10 per cent. (or any other percentage determined by the Government) of the share capital of INA unless this acquisition forms part of a sale to the strategic investor.

While Croatia owns one or more of INA's voting shares, INA or its governing bodies may only make decisions or enter into legal transactions relating to the dissolution of the Company, a waiver of the operating permit or authorization or any concession of interest to Croatia, a change of INA's name or the transfer of its registered office to a foreign jurisdiction, with the Government's prior consent. If any liquidation procedure is initiated in respect of INA or its legal successor, Croatia shall have a right of first refusal over the purchase of all or part of INA's assets, at estimated market value, as long as it owns one or more of INA's voting shares.

The Government is required to provide a confidential report to the Croatian Parliament on the progress of the privatization at least once in every quarter, until Croatia ceases to own 25 per cent. or more of INA's shares.

Industry regulation

General information on industry regulation

In preparation for admission to the EU, Croatia is required to liberalize its energy sector and bring it into line with European norms, including as regards competition and security of supply. The EU's report of November 2005 noted that although Croatia has made progress in its energy sector, it must continue building up oil stocks in line with EU accession requirements and strengthen the agency responsible for oil stocks. In addition, the report noted that more remains to be done to improve energy efficiency and promote renewable energy sources, as regards both legislation and stepping up institutional capacity, and administrative capacity also needs strengthening, particularly to promote energy efficiency and renewable energy sources. In March 2006, the European Commission signed an agreement on Croatia's participation in the EU's Intelligent Energy Europe program to promote energy efficiency and the wider use of renewable energy sources. Croatian organizations will be able to take part in European projects and events supported by the program.

Croatia committed itself to liberalization by ratifying the European Energy Charter on 19 September 1997 and the Protocol of Accession of Croatia to the Marrakesh Agreement establishing the World Trade Organization on 5 October 2000. In July 2001, the Croatian Parliament adopted the new Energy Sector Regulatory Package, which consisted of the Energy Act, the Regulation of the Energy Activities Act, the Gas Market Act and the Oil and Oil Derivatives Market Act, and in March 2002, the Strategy for the Energetic Development of the Republic of Croatia for the next decade. The original Energy Sector Regulatory Package was amended in 2004 and 2006, and further amendments to the Gas Market Act are expected in the near future.

The backbone of the Energy Sector Regulatory Package is the Energy Act, which prescribes measures for the safe and reliable supply of energy and efficient power generation and usage, and imposes licensing requirements.

The exploration for and production of oil and natural gas is regulated by the Mining Act (adopted in 1991 and subsequently amended) and related by-laws. The Mining Act determines mineral resources to be "goods of interest for Croatia" which are owned by Croatia and subject to special protection. As a result, these activities of INA are subject to considerable control through licensing authorities, administrative supervision by the Ministry, and inspection by the State Inspectorate. The Mining Act is expected to be amended in the last quarter of 2006, pursuant to the plan to align Croatian legislation with the Acquis in 2006, adopted by the Croatian Parliament.

Many of these laws are recent, and have rarely been tested in the courts. As a result, many ambiguities and inconsistencies between them remain, with the result that legislation and regulations may be interpreted differently by Croatian courts, other competent authorities and Management.

Overview of energy sector regulation

Pursuant to the Energy Act (published in the Official Gazette 68/2001 and 177/2004), energy services are classified either as market-based or public services. The transportation, storage and distribution of natural gas, and the supply (provision) of natural gas to tariff customers are classified as public services. Licensees who provide public services are entitled to a subsidy for discharging "legacy costs" (liabilities and costs incurred prior to implementation of the Energy Act, which cannot be fully covered by operating under market conditions), in accordance with the law.

Energy undertakings that perform two or more energy activities, or that perform other activities alongside their energy activities, are required to keep separate business books and produce financial reports for each energy activity separately and independently from other activities.

In the event of disturbance in the domestic market due to an unexpected or continuing shortage of energy and in certain emergency situations determined by law, the Government is entitled to impose special trading conditions and/or constraints on trade with certain energy sources to limit exports or imports of energy, determine special conditions for the export or import of energy, impose obligatory energy generation and permit INA Group to supply energy to selected customers only. These governmental decisions are classified as force majeure under the Energy Act.

Regulatory authority

The Regulation of the Energy Activities Act (published in the Official Gazette 177/2004) established HERA. HERA is an independent public agency responsible to the Croatian Parliament, and run by a Management Council consisting of five members appointed by the Croatian Parliament upon the proposal of the Government. It is responsible for, *inter alia*, adopting a transparent tariff system for pipeline transport of oil and refined products, methodologies, i.e. tariff systems for the transportation of natural gas, storage of natural gas and supply of natural gas to tariff customers. Its activities also include issuing and withdrawing licenses for energy activities, adopting certain energy regulations, settling disputes relating to regulated energy activities, and monitoring and overseeing the energy market in general (including from a competition perspective), in accordance with the energy sector laws. HERA's official web site is www.hera.hr.

Pursuant to a Decision of the Government (published in the Official Gazette 73/2005), HERA is financed by a contribution payable by licensed energy undertakings corresponding to 0.06 per cent. of their total annual revenue derived from the sale of goods or services performed on the basis of licenses issued by HERA, and also by fees payable to HERA for items such as the issuance of licenses, consents, and opinions.

Decisions adopted by HERA pursuant to its public authority are final (unless otherwise determined by the law) and can only be challenged before the Administrative Court of the Republic of Croatia.

Licensing regime

The Energy Act determined that the construction, use and maintenance of energy plants, and the performance of energy activities, which may only be performed under licenses issued by HERA, save for certain exemptions, such as for the retail sale of refined products, are of interest to Croatia. The duration of the licenses for energy activities listed in the Energy Act is determined by the Ordinance of the Government (published in the Official Gazette 116/2002 and 71/2005) and varies from three to 40 years.

The list of licenses currently held by INA and their duration pursuant to the aforementioned Government's Ordinance is presented in the table below:

Activity	License registration date	License expiry date
Electricity generation	13.12.2003	13.12.2018
Natural gas supply (purchase of natural gas from production and/or export for sale to customers)	13.12.2003	13.12.2018
Production of refined products	13.12.2003	13.12.2018
Transportation of oil, refined products and bio fuels by road vehicles	13.12.2003	13.12.2018
Wholesale of refined products	13.12.2003	13.12.2018
Heat generation	13.12.2003	13.12.2018
Trade, mediation and representation in the energy market	13.12.2003	13.12.2018
Wholesale and retail of LPG	13.12.2003	13.12.2018

Licenses may be issued to any legal entity incorporated in Croatia, provided that it is registered for the performance of such energy activities, it is technically qualified to carry them out, it employs the necessary qualified personnel, it has sufficient funds or is able to prove that these can be provided, the license for the energy activity for which the application is submitted has not been cancelled within 10 years preceding the year of application and the members of the board of directors or responsible persons have not been convicted of a criminal offense related to the performance of the energy activities during the last five years. In addition, licenses for certain energy activities can also be issued to natural persons. An applicant who is denied a license is entitled to appeal against such decision to the Ministry.

HERA may temporarily or permanently cancel licenses before their expiration under the following circumstances as provided by the Energy Act: (i) temporarily — if the energy undertaking ceases to fulfill conditions for issuance of the license (save for the last two conditions set out in the previous paragraph) or if the energy undertaking fails to determine the price in accordance with the law; and (ii) permanently — in case the energy undertaking fails to remedy the grounds for temporary cancellation of the license or to remedy the irregularities in its operations within the term provided by the competent inspector. HERA is entitled, irrespective of whether grounds exist for temporary or permanent cancellation of a license, after obtaining the opinion of the Ministry and carrying out an inspection, to allow the performance of the respective energy activity if necessary for securing regular and safe energy supply or in order to prevent or eliminate material and immediate danger to human life and health or material disruptions in economy. HERA's decision to cancel a license or to allow the performance of an energy activity despite reasons for cancellation of a license may be appealed to the Ministry.

HERA may order any party whose license has been cancelled, or who has ceased to perform energy activities, to hand over the operation of its plants, facilities, appliances, network or systems to another energy undertaking if necessary to ensure the regular and safe supply of energy or to prevent or remedy damage to the legal entities or the life and work of natural persons (especially in hazardous situations threatening the life and health of citizens). HERA is authorized to determine both the amount of compensation the new undertaking owes to the Ministry and the amount of compensation the Ministry owes to the entity that handed over its assets. The decision of HERA ordering handing over of plant facilities, appliances, networks or systems to another energy undertaking may be appealed to the Ministry.

Regulation of the natural gas sector

The Gas Market Act (published in the Official Gazette 68/2001 and 87/2005) regulates natural gas supply (procurement), transportation and distribution.

Natural gas supply

Under the Gas Market Act, natural gas suppliers are responsible for procuring and contracting quantities of natural gas for import. INA is the only natural gas supplier in Croatia. Natural gas suppliers are required to deposit copies of natural gas supply contracts with both the Ministry and HERA. Natural gas suppliers may enter into the new "ship or pay" and "take or pay" agreements only with HERA's approval.

Natural gas suppliers are required to enter into natural gas sale contracts with natural gas distributors and customers connected to the natural gas transmission system ("direct customers"). Such agreements are entered into for an unlimited period of time, unless the parties agree otherwise. The natural gas supplier is required to guarantee the supply of the contracted volumes of natural gas to distributors and direct customers by entering into contracts for the purchase of sufficient natural gas quantities, use of transport capacity and access to the transport system, the storage of natural gas and storage of adequate natural gas reserves.

Holders of concession rights and owners of plants and facilities for the production of oil and natural gas, and owners of underground natural gas storage, must allow third-party access to their transport and storage facilities, provided there is available capacity and adequate technical and safety conditions. This access and use is regulated by commercial agreements between the parties, with HERA's approval.

Natural gas transportation

Pursuant to the Gas Market Act, the natural gas transporter must guarantee the reliable and high-quality transportation of natural gas from the point at which the natural gas enters the Croatian gas transportation system to the point where the distribution undertaking or the direct or eligible customer takes over the natural gas. INA has no natural gas transportation operations, but uses the Plinacro transportation system.

The terms of access to the transportation system are determined on a negotiated rather than a regulated basis. Mandatory conditions to be fulfilled by either "eligible customers" or natural gas suppliers for access to the transportation system are determined by the Network Rules for Access to the Gas Pipeline Transport (Official Gazette 126/2003), adopted by the Minister upon the transporter's proposal and with the previous opinion by HERA.

The transportation undertaking may refuse the requested access to the transportation system if it lacks capacity or where access to the transportation system could cause serious economic or financial difficulties in relation to previously-concluded "ship or pay" and "take or pay" agreements. Access cannot be denied to the producer of natural gas in Croatia. Any party objecting to the terms and conditions of access may appeal to HERA, whose decision may be challenged before the Administrative Court of the Republic of Croatia. Eligible customers or natural gas suppliers who want to contract for the supply of natural gas, but do not have access to the existing transportation system on technical or other grounds, are entitled to construct their own direct lines, upon HERA's approval.

Natural gas distribution

The distributor is responsible for the development, construction, maintenance, operation and supervision of the distribution system and for the implementation of technical and safety provisions. The distributor is also in charge of the harmonized activity of the distribution system with the transportation system. The distributors are INA's customers.

Distribution of natural gas may be performed by any legal entity which has obtained a license for distribution from HERA and a concession for natural gas distribution in a particular area. Concessions may be awarded by the regional government in response to a request from a current gas distributor, or following a public tender process. Concessions are awarded for a minimum of 15 years and a maximum of 30 years. Concessions for the development and construction of gas pipelines are awarded for a minimum of 20 years.

Pricing

Natural gas supply

The price of natural gas supplied to tariff customers (i.e., customers other than eligible customers) is set on the basis of a tariff system composed of a methodology for the determination of tariff rates (determined by HERA) and the level of tariff rates (determined by the Government, upon the proposal of the Ministry, following the relevant energy undertaking's application opined on by HERA).

The tariff system for the supply of natural gas to tariff customers (published in the Official Gazette 99/2002) regulates the price of natural gas for 1 Sm^3 at a pressure of 101.325 Pa and a temperature of 288.15 K for basic caloric value of 33,338.35 kJ/Sm^3. The sale price of natural gas of the prescribed caloric value is established by the application of the tariff system on a quarterly basis and comprises the purchase price and the seller's margin. The tariff system does not contain a formula for calculating the seller's margin.

If the natural gas is of a different caloric value, the price is calculated on the basis of the following formula:

$$Cs = C \times Ks$$

whereby:

Cs = actual sale price;
C = sale price; and
Ks = actual lower caloric value of natural gas.

Sale price C, expressed in HRK/1 Sm^3, is calculated on the basis of the following formula:

$$C = Co \times T + M$$

whereby:

Co = the purchase price or weighted average purchase price for natural gas in the quarter for which the price is determined, in U.S. dollars;
T = the average sale exchange rate of the Croatian National Bank for Kuna/U.S. dollars for the month preceding the month in which the price is determined; and
M = the seller's approved margin in HRK/1 Sm^3

The weighted average natural gas purchase price, Co, takes into consideration the prices and quantities of natural gas purchased from different sources, which are handed over to the natural gas transportation system by the supplier.

$$Co = \frac{\Sigma Qdom \times \Sigma Cdom + Qimport \times Cimport}{\Sigma Qdom + \Sigma Qimport}$$

whereby:

Qdom = the quantity of natural gas from domestic production;
Qimport = the quantity of imported natural gas;
Cdom = the price of natural gas from domestic production in U.S. dollars; and
Cimport = the price of imported natural gas in U.S. dollars

The sum is valid for different sources of domestic or imported natural gas.

The price in U.S. dollars is re-calculated pursuant to the average sale exchange rate of the Croatian National Bank for Kuna/U.S. dollars for the month preceding the date which the price is determined.

Legal and natural persons engaged in natural gas supply are required to deliver the calculation of the natural gas purchase price or weighted average natural gas purchase price, an overview of the total natural gas quantities planned for supply, the average exchange rate of the Croatian National Bank for Kuna/U.S. dollars and the seller's margin to HERA, 20 days prior to application of new prices. If HERA determines that the price has not been calculated pursuant to the tariff system, it will not permit it to be applied.

The sale price is calculated by the tenth day of the month preceding the quarter for which it is determined. The sale price may be changed if the difference between the newly calculated and the current price is more than $\pm$ 0.02 kn/Sm^3.

Pursuant to the Tariff system for the supply of natural gas to tariff customers, the average sale price of natural gas for tariff customers at entry into the transmission system is currently 1.00 kn/m^3/33,338.35 kJ and since 1 January 2003 has changed only once, in May 2004, from HRK 1.00/m^3 to HRK 1.07/m^3.

Natural gas transportation

The Tariff system for the transportation of natural gas (published in the Official Gazette 32/2006) sets the formula for calculating amounts payable for use of the natural gas transportation system, which applies to all users of the gas transportation system and is determined so that all users of the system bear their cost of reservation of transport capacity ("post mark" principle).

The compensation for use of the natural gas transportation system represents the sum of the products of the reserved highest daily load, for each month of transporting, multiplied by the tariff rates for the same period of transporting, as follows:

$$Nn = (SQMDpeak \times Tpeak) + (SQMDmiddle \times Tmiddle) + (SQMDbasic \times Tbasic)$$

whereby:

Nn = the amount of compensation for use of the natural gas transportation system in HRK;
SQMDpeak = the sum of the highest daily load reserved for the peak load months (Sm^3/day);
SQMDmiddle = the sum of the highest daily load reserved for the middle load months (Sm^3/day);
SQMDbasic = the sum of the highest daily load reserved for the basic load months (Sm^3/day);
Tpeak = the tariff rate for transportation of natural gas in peak load months (HRK/Sm^3/day);
Tmiddle = amount of tariff rate for transport of natural gas in middle load months (HRK/Sm^3/day); and
Tbasic = amount of tariff rate for transport of natural gas in basic load months (HRK/Sm^3/day).

Pursuant to the decision of the Government (published in the Official Gazette 153/2005), the following transportation tariff rates apply in 2006:

Tpeak = 3.463 HRK/m^3/day;
Tmiddle = 2.886 HRK/m^3/day; and
Tbasic = 1.731 HRK/m^3/day.

Regulation of the oil sector

The Oil and Oil Derivatives Market Act (published in the Official Gazette 57/2006) regulates the production of refined products, the transportation of oil through pipelines, the transportation of refined products through pipelines, the wholesale of refined products, the retail trade of refined products, the storage of oil and refined products, and trade, representation and intermediation in the oil and refined products market. Oil collection, oil transport and storage systems on production fields are not regulated by the Oil and Oil Derivatives Market Act.

The activities regulated by the Oil and Oil Derivatives Market Act, except for the retail trade of refined products and the storage of oil and refined products for private purposes, may only be performed under license issued by HERA.

INA is the only holder of production licenses for refined products in Croatia.

Energy undertakings licensed to transport oil and refined products through pipelines are required to allow access to third parties in a transparent and non-discriminatory manner. Access may be denied if there are technical or safety restrictions or if the capacity is completely full. The party whose request for access was denied is entitled to submit an appeal against such a decision to HERA. HERA's decisions on the appeal may be challenged before the Administrative Court of the Republic of Croatia.

Pricing

The tariff system for the transport of oil and refined products through pipelines is set by HERA, after taking into account the views of the energy undertakings to which the tariff system will apply and the Ministry. The tariff system is based on costs calculated according to internationally accepted practice, negotiated economic and financial terms, and the application of any other known methodology or a combination thereof.

Prices of refined products are determined according to market conditions, but the maximum sale prices of specific refined products are regulated on the domestic market by a regulation on prices of refined products adopted by the Ministry, via a pricing formula which takes into account the market price of refined products, foreign exchange rates, import customs, costs of primary storage and distribution, margins, special taxes, other contributions to the state budget and contributions to the Croatian Agency for Mandatory Reserves of Oil and Oil Derivatives. Participants are not required to sell at the maximum price and will usually set prices below this level. According to the Regulation on Setting out the Prices of Oil Derivatives (published in the Official Gazette 75/2006) adopted by the Ministry in July 2006, maximum sale prices have been set for the following derivatives:

Gasoline (EUROSUPER BS 95) with sulfur content up to 10 mg/kg;

Gasoline (EUROSUPER 95) with sulfur content up to 50 mg/kg;

Gasoline (SUPER 95) with sulfur content over 50 mg/kg;

Gasoline (EUROSUPER 98) with sulfur content up to 50 mg/kg;

Gasoline (SUPER 98) with sulfur content over 50 mg/kg;

Gasoline (EUROSUPER 100) with sulfur content up to 50 mg/kg;

Diesel (EURODIESEL BS) with sulfur content up to 10 mg/kg;

Diesel (EURODIESEL) with sulfur content up to 50 mg/kg;

Diesel (DIESEL) with sulfur content over 50 mg/kg;

Gas oil (fuel oil, extra light); and

Blue diesel (diesel fuel dyed in blue color).

This pricing formula was initiated to establish a link between the sale price of derivative oil products and market conditions. The formula establishes this link with market conditions by including the published quoted Platts European Markets price within the formula. The formula sets the maximum price allowed, as follows:

$$PC = OB \times \rho / 1000 + M$$

whereby:

PC = the selling price;
OB = the base for calculation (see below);
ρ = the product density (for gasoline 0.772 kg/l, for diesel and gas oil (fuel oil extra light) 0.845 kg/l); and
M = the margin (HRK/l) (see below).

The selling prices are re-calculated every 14 days and become effective at one minute past midnight on the applicable Tuesday morning. The sale prices can be changed if the base for calculation for any oil derivative changes ± 2 per cent in relation to the then existing price.

"OB" = X1 × X2 + X3 + X4

whereby:

OB = the base for calculation;

X1 = average median price of refined products as quoted by Platts European Marketscan, parity CIF Mediterranean Basis Genova/Lavera, in the calculation period (the day after the previous calculation to the day of new calculation), whereas the average middle quotations of cargoes FOB Med (Basis Italy) and cargoes CIF Med (Basis Genova/Lavera prices from Platts European Marketscan) are used as follows:

Gasoline (EUROSUPER BS 95)	1.02 × Premium gasoline 50 ppm CIF Med
Gasoline (EUROSUPER 95)	Premium gasoline 50 ppm CIF Med
Gasoline (SUPER 95)	0.95 × Premium gasoline 50 ppm CIF Med
Gasoline (EUROSUPER 98)	1.06 × Premium gasoline 50 ppm CIF Med
Gasoline (SUPER 98)	1.02 × Premium gasoline 50 ppm CIF Med
Gasoline (EUROSUPER 100)	1.10 × Premium gasoline 50 ppm CIF Med
Diesel (EURODIESEL BS)	1.02 × Diesel 50 ppm CIF Med
Diesel (EURODIESEL).	Diesel 50 ppm CIF Med
Diesel (DIESEL)	Gasoil 0.2 per cent. CIF Med
Gas oil (fuel oil extra light)	Gasoil 0.2 per cent. CIF Med

Blue diesel (diesel fuel dyed in blue color) Gasoil 0.2 per cent. CIF Med;

X2 = the average exchange rate for HRK/U.S.$ as quoted by the Croatian National Bank in the calculation period (the day after the previous calculation to the day of new calculation). Exceptionally, if sudden exchange variations (± 4 per cent.) occur, the exchange rate on the calculation day shall apply instead of the average exchange rate;

X3 = the customs duties in HRK/t according to the applicable customs rate for import price of a particular derivate (2.1 per cent.); and

X4 = costs of primary storage and handling amounting to HRK 68.17/t for motor petrol, HRK 56.00/t for diesel fuel, gas oil (fuel oil, extra light) and blue diesel

An amount set by the Government for financing the operations of the Croatian Agency for Mandatory Oil and Oil Derivatives Reserves and for financing mandatory oil and refined products reserves (X5) is added to the selling wholesale price, upon the proposal of the Agency for Mandatory Reserves of Oil and Oil Derivatives, on an annual basis. Currently, X5 is set at HRK 120/t.

"M" is currently set at HRK 0.60/l for motor and diesel fuels, HRK 0.40/l for gas oil (fuel oil extra light), and HRK 0.30/l for blue diesel.

Energy undertakings engaged in the production, and/or import and/or retail trade of oil and refined products are required to submit their complete calculation with the basis for price change at least one business day before their application to the Ministry. If the Ministry determines that the newly proposed prices are not calculated in accordance with the Regulations, they cannot be applied.

The Government is also entitled to determine the highest price of refined products, for periods not exceeding 90 days, for reasons of consumer protection, market regulation or other reasons which are not specifically listed in the Oil and Oil Derivatives Market Act.

The Government is entitled to adopt, on the Ministry's proposal, an Intervention Plan in the event of domestic market disturbances due to an unexpected or continuous shortage of oil and refined products, direct danger to state independence or integrity, natural disasters, technological catastrophes, or an unexpected and material increase in the price of oil and refined products on the world markets. The Intervention Plan may include, among other measures, price controls, limitations on petrol station operating hours and conditions for the use and renewal of the obligatory reserves of oil and refined products.

Oil and refined products reserves

In addition to its operative reserves requirements and in the light of the EU's report of November 2005, the Oil and Oil Derivatives Market Act adopted in May 2006 has also regulated the creation of mandatory reserves of oil and refined products and has provided for the foundation of the Croatian Agency for Mandatory Reserves of Oil and Oil Derivatives as an independent public agency founded by Croatia, entrusted with ensuring these reserves. Strategic reserves requirements are regulated by the Strategic Commodities Reserves Act (published in the Official Gazette 97/2002).

Operative reserves

Under the Oil and Oil Derivatives Market Act, energy undertakings using refined products for production of electricity and/or heating from refined products for market and/or tariff customers, buyers of refined products providing public services and producing electricity and heating for their own needs, and buyers of refined products producing electricity and heating for the needs of legal or natural persons providing public services must hold operative reserves. Pursuant to the Energy Act, energy undertakings that produce electricity or heat, or produce or export oil and refined products (except transit), must form and renew operative reserves, in addition to mandatory reserves. The Ministry is authorized to adopt regulations to determine operative energy reserves requirements unless they are regulated by a special law.

Mandatory reserves

Mandatory reserves of oil and refined products are required in order to ensure the supply of oil and refined products in the event of threats to the energy safety of the state due to extraordinary disturbances in supply. The mandatory reserves are put in place by 31 July of the current year, at the latest, in quantities equal to 90 days' average consumption in the previous calendar year. The Government determines the annual mandatory reserves quantity and structure by 31 March, upon the recommendation of the Minister.

Annual consumption is determined on the basis of annual reports submitted by energy undertakings to the Ministry by 31 January on the quantities of oil and refined products produced, imported, processed and delivered. The Government may reduce the quantity of mandatory reserves by up to 25 per cent. on account of domestic production of refined products from crude oil produced on Croatian territory. In addition, the reserve levels are expected to be measured not by a percentage of the prior year's net imported quantity but by consumption days.

Mandatory reserves do not include strategic reserves pursuant to the Strategic Commodities Reserves Act, operative reserves under the Energy Act, operative reserves under the Oil and Oil Derivatives Market Act or other specified reserves, such as fuel in vehicles, ships or railway containers.

Mandatory reserves include the following classes of refined products: (i) motor and jet petrol; (ii) diesel fuels and gas oils; and (iii) fuel oils (light, medium and heavy). Certain quantities of mandatory reserves of those refined products may be kept in the form of crude oil and semi-finished products.

Prior to the adoption of the Oil and Oil Derivatives Market Act in 2006, the mandatory reserves requirements were set by the Government's Ordinance on Mandatory Oil and Oil Derivatives Reserves (published in the Official Gazette 27/2003 and 151/2005) which will cease to be effective on 31 July 2007. Pursuant to the Government's Ordinance, mandatory reserves must be kept by legal and natural persons who imported at least 25 tonnes of oil and refined products, net, in the previous year. In 2005, the requirement was to hold mandatory reserves equivalent to 20 per cent. of the prior year's net import quantity (of oil and refined products).

As a result of the establishment of the Agency for Mandatory Reserves of Oil and Oil Derivatives, the quantity of mandatory reserves required to be kept under the Ordinance is to be reduced gradually every year, until their maintenance is taken over by the Croatian Agency for Mandatory Reserves of Oil and Oil Derivatives. It is currently expected that as of 1 August 2011, energy undertakings obliged by the Government's Ordinance will not be required to maintain the mandatory reserves.

Strategic reserves

The Strategic Commodities Reserves Act categorizes oil and refined products as strategic commodities. Strategic reserves are created in order to ensure continuity of the main supply in the event of war, circumstances in which the independence, cohesion or subsistence of the Republic of Croatia is directly endangered, major natural disasters or technological and ecological catastrophes. Strategic reserves are managed by the Government, and the Government is authorized to require certain entities to keep certain stocks as part of commodity reserves. The Government adopted the Ordinance on Mandatory Oil and Oil Derivatives Reserves on this basis.

Fuel quality

The quality of certain liquid oil fuels is prescribed by the Government's Ordinance on the quality of certain liquid oil fuels (published in the Official Gazette 53/2006), adopted pursuant to the Law on Air Protection. Pursuant to the Government's Ordinance, a maximum sulfur level of 50 mg/kg is currently permitted in motor fuel and diesel placed into circulation on domestic market (EURO IV), while this level is to be reduced to 10 mg/kg as of 1 January 2009 (EURO V).

The Government is entitled, upon the Ministry proposal, to determine the annual quantity of liquid oil fuels permitted to be put on the Croatian market with limit values (including sulfur content) exceeding the limits set out in the Ordinance, and also to determine the maximum discrepancy tolerance. Suppliers of such liquid oil fuels are required to obtain a permit from the Ministry for putting of such products on the Croatian market. These exceptions to the Ordinance limits values apply until 31 December 2008 for motor fuels (gasoline and diesel), and until 31 December 2009 for gas oil, heating oil and ship gas oil.

Tax/duties

Pursuant to the Act on Special Tax on Oil Derivatives, energy undertakings engaged in the production and import of refined products are required to pay excise on refined products imported or delivered from producers' warehouses, even if these are within Croatia, which are payable for one kilogram of net weight or one liter of oil derivative at +15 ^{o}C, as presented in the table below:

Mineral oils per liter	Amount of tax in HRK
Motor Petrol (MB 98 and MB 86) and other kinds of leaded gasoline irrespective of octane value and commercial name	2.40
Motor Petrol (BMB-98, BMB-95 and BMB-91) and other kinds of unleaded gasoline irrespective of octane value and commercial name	1.90
Diesel fuel (D1, D2, D3) and other kinds of diesel fuel irrespective of commercial name	1.00
Eurodiesel, diesel fuel colored with a blue dye	0.00
Heating oil, extra light and special light (EL, LS)	0.30

Mineral oils per kg of net weight	Amount of tax in HRK
All types of heating oil, light, medium and heavy	0.00
Jet fuel and aviation fuel	0.00
Liquefied petroleum natural gas	0.10
All kinds of paraffin	1.40

Regulation of exploration for and exploitation of mineral resources

Exploration approvals and mining concessions for exploitation are, *inter alia*, required in order to explore for and exploit mineral resources, including mineral resources with energy potential (which include all types of fossil coal, hydrocarbons in aggregate, fluid or gaseous state, all types of bituminous and oily rock, other natural gases located in the soil and radioactive mineral raw materials). These may only be granted to legal entities incorporated in Croatia and registered for mining activities (or natural persons registered for the exploration or exploitation of mineral resources in Croatia). Exploration approvals and mining concessions for the exploitation of oil and natural gas are granted by the Government on request and in accordance with the provisions of the Mining Act.

Exploration

According to the Mining Act (adopted in 1991 and subsequently amended), works and testing aimed at determining the existence, location and form of mineral resource deposits, their quality and quantity as well as the conditions of exploitation, constitute exploration.

The approval for exploration of exploration fields is granted for three years, extendable to five years for exploration of hydrocarbons in fluid or gaseous states.

Government approval for exploration will be revoked in certain circumstances set out in the Mining Act, including failure to meet safety standards, if present exploration operations preclude other mining operations or jeopardize exploration opportunities, engagement in exploitation under an exploration license, or failure to begin exploration within the required timeframe. Government approval may be revoked in certain circumstances, which include, *inter alia*, failure to engage in minimum exploration activity, exceeding the exploration remit of the license, or failure to report the progress and results of exploration.

Exploitation

Exploitation of mineral resources covers excavation from deposits, mineral processing and, in the case, of oil and natural gas exploitation, the transportation of natural gas, oil and condensates by local natural gas and oil pipelines when such pipelines are technically related to the approved exploitation fields, as well as storage of hydrocarbons in geological structures.

The exploitation of mineral resources requires approval for the exploitation fields, a mining concession for mining works, and a building and use permit for mining objects and facilities.

The Government approves the oil and natural gas exploration fields over a defined surface area. After a public discussion, the exploration field is defined as the surface area that should, given the quantity and position of the balance reserves of the mineral resources, enable a maximum of 40 years' exploitation of the mineral resources within that field. The exploitation right may be extended beyond 40 years if the licensee has carried out its mining activities in accordance with the applicable regulations. The approval will be cancelled if the licensee permanently ceases to carry out mining activities at the approved field or if the mineral resources within that field have been exhausted.

In order to obtain a concession for mining works, an undertaking must submit a mining concession request which includes an exploration field approval, a mining design with a certificate evidencing the supervision and acceptance of the design solutions, a location permit, the necessary consents and approvals in accordance with the public discussions, the conditions and restrictions for exploitation, and proof of the right to carry out mining works on respective land plots for at least five years.

An applicant who has already obtained exploration approval will generally be granted the exploitation right for the same area if it satisfies the conditions prescribed for exploitation. If these conditions are not met, the exploration approval holder shall be reimbursed for the "funds dedicated to exploration operations" by the undertaking that was awarded the exploitation right.

Building permits for mining objects and facilities directly related to the exploration and exploitation of oil and natural gas are in principle issued by the Ministry. Mining objects and facilities may only be used upon issuance of the use permit by the competent authority. Pursuant to the Mining Act, mining facilities for exploration and exploitation of a standard type may be used as foreseen by the mining design and in accordance with the safety at work rules.

Exceptionally, the approvals for construction or reconstruction of certain mining objects and facilities to be carried out pursuant to the simplified mining design, and for their use, may be issued by the authorized person of the licensee.

The majority of the use approvals for INA's wells on Croatian onshore fields were issued in this way and were not obtained from the competent authority of the time. The wells that have use approvals issued by INA do not have building permits and in some cases do not have the approval of micro-location issued by the competent authorities, which is required for mining constructions and facilities that do not require the building permits. Although INA Group believes that the conditions for issuance of use permits by its authorized person were met in each individual case, and that no other permit from the competent authority was required, there can be no assurance that the competent authorities will take the same view.

The Regulation on Exploitation of Mineral Resources (published in the Official Gazette 135/1998) further regulates the procedures for issuing exploitation field approval, approval for mining works, micro locations of facilities, and building and use permits for mining objects and facilities.

Exploitation field approvals and mining concessions shall be revoked in certain circumstances, as determined by the Mining Act, including endangering of lives, health, material assets or the environment, irrational exploration despite written notice, failure to pay exploitation compensation despite written notice, engaging in exploitation under an exploration license, failure to explore for renewal and maintenance of reserves simultaneously with exploitation, or failure to begin mining concession work within the required time period.

Other

The commencement, interruption and completion of exploration and exploitation works must be reported to the Ministry in accordance with the Mining Act. Measures necessary for the protection of peoples' lives and health and protection of property must be taken and safety at work rules determined by the Mining Act, Safety at Work Act and other regulations stipulating conditions for safe work, health and environmental protection must be applied in the area in which the works are to be performed, in accordance with the applicable regulations.

Undertakings are also required to organize first aid and fire fighting units and to report to the State Inspectorate on any deaths, group injuries or other accidents at work. Every employee is required to inform the undertaking of any event that may jeopardize safety, such as the presence of explosive and poisonous gases, eruption of oil or natural gas, water outbursts, or fire.

Upon completion of exploration and exploitation activities, undertakings are required to implement all measures necessary for the elimination of danger to persons, property and nature, to rehabilitate the area in question, and to report on such measures to the mining department of the state administration of the competent regional self-government unit. (Pursuant to the Law on Local and Regional Self-Government, the local self-government units are municipalities and towns and the regional self-government units are counties. The City of Zagreb has a special status determined by the Law on the City of Zagreb.) If the measures taken are sufficient, the relevant authority will issue a certificate to the undertaking and notify the Ministry. The Ministry will then issue a decision to erase the exploration or exploitation field from its registry. If the measures taken are insufficient, the mining department will order additional or supplemental measures to be taken within a given period. If the undertaking fails to comply with the order, the order will be carried out by the department at the undertaking's expense.

A mineral resources exploitation fee of an amount equal to 2.6 per cent. (or 5 per cent. in special state-care areas) of gross revenue (before taxation) derived from the sale of natural gas and oil produced at the field in question is payable by the undertaking.

Reserves reporting

Undertakings are required to keep records of their reserves of mineral resources, in accordance with the Mining Act. The reserves must be confirmed every five years by a special commission whose members are appointed by the Minister. Reserves are determined and categorized in accordance with the Regulation on Collection of Data, Recordation and Determination of Mineral Reserves and Execution of the Balance of Reserves (published in the Official Gazette 48/92 and 60/92). In order to regenerate and maintain mineral resources reserves, the undertaking must explore mineral resources during exploitation, and use 3 per cent. of gross revenue derived from the sale of the respective mineral resource for that purpose. This obligation does not apply if the A and B category reserves are sufficient for 25 years of exploration.

Environmental legislation

INA is subject to state and local environmental laws and regulations in the countries in which it operates.

The Environmental Protection Act is the main law which regulates environmental protection in Croatia. The protection of certain areas of the environment is also regulated by individual laws and regulations, the most important being the Water Act, the Air Protection Act and the Waste Act. Certain other laws and regulations deal with other segments of the environment, such as intervention plans in case of accidents (e.g., spills of mineral oils in any form, which are governed by the Plan of Interventions in Case of Sudden Pollution of the Sea in Republic of Croatia (Official Gazette 8/97)).

Croatia is a party to, *inter alia,* the following international environmental treaties: the Vienna Convention for the Protection of the Ozone Layer (since 1991), the Montreal Protocol on Substances that Deplete the Ozone Layer (since 1991), the London and Copenhagen Amendment to Montreal Protocol on Substances that Deplete the Ozone Layer, the United Nations Framework Convention on Climate Change (since 1992), the Protocol on Strategic Environmental Assessment (since 2003), the Protocol for the Protection of the Mediterranean Sea against Pollution From Land-based Sources and Activities (since 1991), the Protocol for the Protection of the Mediterranean Sea against Pollution Resulting from Exploration and Exploitation of the Continental Shelf and the Seabed and its Sub-soil (since 1994), and the Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and Their Disposal (since 2000). Croatia is also a party to a Guarantee Agreement executed on 10 May 2001 between Croatia, as the Guarantor, and the EBRD, as the Lender, for certain environmental projects in INA, as the Borrower.

Under the Plan for Harmonization of Croatian Legislation with the Acquis in 2006 (Official Gazette 13/2006), further amendments to environmental protection laws and regulations are expected for the third (Environment Protection Act) and fourth quarters of 2006 (Convention on Access to Information, Public Participation in Decision-making and Access to Justice in Environmental Matters, Convention on Persistent Organic Pollutants, Waste Act).

The Croatian Parliament and the Government adopt regulations and the strategy for environmental protection, and the local self-government authorities adopt programs for environmental protection.

The Environmental Protection Act (Official Gazette 82/94 and 128/99) regulates the civil liability of polluters, while the Criminal Code (Official Gazette 110/97, 129/00, 51/01, 111/03, 105/04 and 71/06) regulates criminal liability. This is supplemented by the Act on Misdemeanors (Official Gazette 88/02, 122/02, 105/04 and 127/04) and the Act on Liability of Legal Entities for Felonies (Official Gazette 151/03). As a general rule, a polluter is liable for damages caused by pollution, regardless of culpability. The polluter shall be held liable for damages unless it proves that the damages did not occur due to its activities or that the source of the pollution was located elsewhere. The polluter is also liable to undertake all measures required to eliminate further risks (including covering of costs) and to immediately notify the competent environmental inspector of any pollution and the measures undertaken to prevent further pollution and damage.

The Act on Fund for Environment Protection and Energy Efficiency (Official Gazette 107/03) requires payment of: (i) fees for CO_2, SO_2 and NO_2 emissions payable by persons owning or using such emissions sources in their activities, (ii) fees for constructions payable by owners or users of constructions subject to environmental impact assessment, (iii) fees for waste payable by generators of municipal waste or non-hazardous industrial waste and hazardous waste and (iv) fees payable by owners of motor vehicles.

Air protection

The Air Protection Act (Official Gazette 178/04) is the basic act regulating the implementation of air quality protection and improvement in Croatia.

The Air Protection Act requires polluters and owners or users of stationary air pollution sources (such as industrial facilities, technological processes and devices releasing pollutants into air) to report to the authority competent for environmental matters and to file with the Environment Emissions Cadastre data on stationary air pollution sources and any respective modification or reconstruction thereof, as well as data obtained through regular monitoring of emissions from sources. The Ordinance (Official Gazettes 140/97, 105/02, 108/03 and 100/04) specifies the limit values of pollutant emissions into the air from stationary sources and the Regulation (Official Gazette 1/06) sets out the rules on monitoring pollutant emissions into air from stationary sources.

The Ordinance on Limit Values of Pollutants in Ambient Air (Official Gazette 133/05) and the Ordinance on Critical Values of Pollutants in Ambient Air (Official Gazette 133/05) prescribe critical, tolerable and recommended levels of air pollutants in air, whereas the Regulation (Official Gazette 155/05) sets out the rules on monitoring air quality.

Croatia is also a party to the Montreal Protocol on Substances that Deplete the Ozone Layer and has undertaken to reduce the annual consumption of ozone-depleting substances, further implemented through the Ordinance on Ozone in Ambient Air (Official Gazette 133/05) and the Ordinance on Substances Depleting the Ozone Layer (Official Gazette 120/05), which provide for a gradual decrease in the consumption of substances which deplete the ozone layer and the management of products containing such substances, as well as specifying limit and tolerable ozone values in air and measures and terms for reducing ozone levels in air.

In order to comply with the requirements of the Acquis and to reduce pollutant emissions from motor vehicles, the Government adopted the Ordinance on Liquid Oil Fuels Quality. See "— Croatia — Industry regulation — Fuel quality" above.

Water protection

The Water Act (Official Gazette 107/95 and 105/05) regulates water use and protection, ways of performing water-management tasks and other issues of importance for water management.

According to the Water Act, legal entities discharging hazardous substances into water in connection with their economic or other activities, or manufacturing or selling potentially water-polluting chemical substances and derivatives thereof, are responsible for keeping regular records of such activities and for submitting these to the relevant authorities.

A water-management permit is required for any water use exceeding the limits of general use, unless provided otherwise by the Water Act. Water use and waste-water discharge in connection with industrial and other activities, the excavation of sand, gravel and rock in areas important for the water regime and the production and distribution of chemicals and their derivatives discharged into water after use require water-management permits, which are issued for a limited period of time (a maximum of five years for water use and a maximum of 15 years for waste water discharge). Water-management permits regulate water use and define the purpose, location, methods, conditions and extent of water use and the discharge of treated and untreated water, and hazardous and other potentially water-polluting substances. The Croatian authorities can issue an authorization order to the holder of a water-management permit to oblige that holder to take or cease certain actions or make investments to eliminate the risk of potential or existing irregularities.

Approximately 15 per cent. of INA Group's petrol stations do not have the water-management permits that they require to use and discharge waste water. This is due to non-compliance with technical and safety requirements, for example, the fact that oil storage tanks at the petrol stations do not have the "double-walled" construction (which prevents oil from entering the water table), or that reconstruction of the sewage system at the site is required. In the event that the competent authorities enforce permit requirements, INA Group could be forbidden from operating any petrol stations that lack permits until permits are obtained, or INA Group could be liable to pay for fines and/or environmental damages incurred in relation to those sites.

Under the Water Act, a water concession is required for carrying out industrial and other activities on water and on public water estates, including for using water for technological and other purposes.

On the basis of the Water Act, the Croatian water-management authority adopted the Regulation on Limit Values of Indicators and Permitted Concentrations of Hazardous and Other Substances in Waste Waters (Official Gazette 40/99, 6/01 and 14/01) with respect to technological waste-water discharged into public sewerage systems or other land with respect to waters discharged, after treatment, from public sewerage systems into natural sources. The indicators values and permitted concentrations of hazardous and other substances in waste water are determined by the water-management permit issued to the pollutant for waste-water discharge.

The basic goals for the protection of freshwater and coastal sea water were established by the State Water Protection Plan (Official Gazette 8/99) defining, *inter alia*, measures to preserve clean waters, accelerate the construction of waste-water treatment facilities and develop cleaner production technologies. The funds for achieving these purposes are provided, *inter alia*, from the state budget and from water-protection fees payable by persons discharging waste water and other substances contaminating the water according to the Act on Water Management Financing (Official Gazettes 107/95, 19/96, 88/98 and 150/05) on the basis of the quantity of discharged water and the level of impact on the quality or usability of water. Funds are also provided by way of donations, financial penalties paid by polluters due to misdemeanors, and international debt exchange due to the enforcement of water protection and credit loans.

Waste management

The Waste Act (Official Gazettes 178/04 and 153/05), the Regulation on Conditions for Waste Management (Official Gazettes 123/97 and 112/01) and the Regulation on Conditions for Hazardous Waste Management (Official Gazette 32/98) are the most important regulations governing the management of waste and the establishment and management of waste facilities. Before any waste-management activities (e.g. collection, processing or storage) can commence, the waste generator must register these activities and obtain a permit.

The Waste Act specifies the main principles of waste management based on the concept that the waste generator pays all costs of preventive measures and all costs of management and disposal of waste. Waste generators are further responsible for establishing production methods that are appropriate from an environment protection perspective and for using environment-friendly packaging for their products.

Waste generators annually producing more than 150 tonnes of non-hazardous waste or more than 200 kg of hazardous waste are responsible for adopting Waste Management Plans for a four-year period that contain data on hazardous and non-hazardous waste, preventive measures against generating waste, data on waste storage and facilities for waste disposal, existing and planned methods of waste management, and for keeping records on waste origin and reporting this data annually to the Waste Regulation Authority.

Waste generators are also responsible for handing over waste only to authorized waste collectors and having permits for collection, processing and storage of waste. Waste generators may recycle or store their own waste if they hold a permit for waste management from the Ministry (or local authority) competent for environmental matters. In any case, such waste may be stored only in facilities or buildings specifically intended for such use for a period not exceeding one year.

In 2005, misdemeanor proceedings were instigated in respect of INA's refineries in Rijeka and Sisak as well as Maziva Rijeka and Maziva Zagreb plants, as a result of the unauthorized performance of hazardous waste-management activities i.e., due to the lack of permits for management, storage and recycling waste products. These proceedings are still ongoing at the date of this prospectus. INA Group could be forbidden from managing, storing and recycling its waste products until proper permits are obtained, in addition to being held responsible for the fines for such misdemeanors and the costs of engaging third party authorized companies for the performance of such activities.

Transportation and storage of fuels

The Act on Inflammable Substances and Fluids (Official Gazette 108/95) is the main law which governs the construction of buildings and facilities and the handling, circulation and storage of inflammable substances and fluids. The treatment of inflammable liquids is also regulated by the Regulation on Inflammable Fluids (Official Gazette 54/99), adopted by the Minister of Interior Affairs. The transportation of inflammable substances and fluids is governed by the law governing the transportation of hazardous substances.

In addition, pursuant to the Act on Inflammable Substances and Fluids, the Minister of Interior Affairs has adopted the Regulation on Stations for Fuel Supply (Official Gazette 93/98), which sets out the safety and technical requirements conditions for constructing, equipping and operating petrol stations, as well as preventative measures against fire and explosions.

The Act on Chemicals (Official Gazette 150/05) regulates the procedure for registration of new substances, the classification, packaging and labeling of chemicals detrimental to human health and the environment and measures for assessing the possible risk to persons and the environment. It also imposes prohibitions and restrictions on the placement into circulation and use of dangerous chemicals.

The Act on Transport of Hazardous Substances (Official Gazette 97/93 and 151/03) governs the transport and supervision of the transport of hazardous substances and related activities. It also implements the European Agreement concerning the International Carriage of Dangerous Goods by Road (ADR) as well as RID, SOLAS, IMCO, and rules, among others.)

This Act classifies hazardous substances into classes of explosive substances, compressed gases, liquefied gases and pressure solution gases, inflammable fluids, inflammable and self-inflammable crude substances, substances creating inflammable gases in contact with water, oxidizing substances, organic peroxides, poisons, polluting and infective substances, radioactive substances, corrosive substances and other hazardous substances, as well as raw materials used for production of hazardous substances and waste having the characteristics of hazardous substances.

The Act on Transport of Hazardous Substances requires preventative and safety measures when transporting, delivering for transport, handling and undertaking any other activities related to the transport of hazardous substances. It also sets out general rules concerning the packaging, loading and unloading and transport of hazardous substances, and special rules relating to certain classes of hazardous substances (for example, the loading and unloading of explosive substances may only be carried out on premises designated by the Ministry of Internal Affairs; persons transporting explosive substances must obtain a license for inland transport issued by the relevant police department and/or for international transport issued by the Ministry of Internal Affairs) and relating to certain transport means (including road transport, transport through tunnels, and rail transport), as well as for specific conditions to be fulfilled by persons transporting hazardous substances (including the obligation to obtain professional certificates and third-party liability insurance).

Pursuant to the authorizations given by the Act on Transport of Hazardous Substances, the relevant Ministers adopted regulations governing various types of transport of hazardous substances, including the Regulation on the Manner of Road Transport of Hazardous Substances (Official Gazette 53/06), the Regulation on the Manner of Maritime Transport of Hazardous Substances (Official Gazette 79/96 and 76/02), the Regulation on the Transport and Handling of Hazardous Substances in Internal Maritime Transport (Official Gazette 80/00), the Regulation on the Transport of Hazardous Substances in the Croatian Armed Forces (Official Gazette 79/06), the Regulation on Handling with Hazardous Substances, Conditions and Manner of Maritime Transport, Uploading and Unloading of Hazardous Substances, Scattered and Other Goods in Ports, and Manner of Preventing the Spreading of Oil Spills in Ports (Official Gazette 51/05), and the Decision on setting out Roads that may be used by Motor Vehicles for Transport of Hazardous Substances and on setting out Parking Places for Motor Vehicles with Hazardous Substances (Official Gazette 27/02, 71/02, 111/03 and 190/03).

The above-mentioned Regulation on the Manner of Road Transport of Hazardous Substances governs the preparation of hazardous substances for transport, the vehicles and documents for the transport of hazardous substances, and special safety and accident measures.

Corporate governance in Croatia

According to the new Audit Act (Official Gazette 146/05), companies listing their shares on the stock exchange in the Official Market or in the joint-stock companies market, banks and other financial institutions, and companies of special interest to the State with the share capital exceeding HRK 300 million in accordance with the Government's decision listing the companies of special interest to the State, are required to establish an audit committee consisting of members of the Supervisory Board and members appointed to the audit committee by the Supervisory Board. At least one member of the audit committee must have knowledge in the field of accounting and/or audit. The audit committee is in charge of monitoring the financial reporting process and the efficiency of internal controls, internal audit and risk-management system, supervising the financial statements audit, monitoring the independence of the company's auditors, etc.

Croatia has not enacted any other corporate governance regulations.

Real estate legislation

The Law on Ownership and Other Real Rights ("LOOR") (Official Gazettes 91/96, 73/00, 114/01 and 79/06) governs ownership of immovables (real estate) and movables and other real rights — servitudes, real charge rights, construction rights and pledges. Under the LOOR, a right of ownership of real estate is acquired when it is registered in the land registry.

Due to the fact that the majority of real estate in Croatia was socially owned for more than 40 years, the land register does not consistently reflect all property transactions that have taken place, because not all property transactions were entered into the land registry. INA Group has not registered its ownership right with respect to all of the real estate that is referred to in this prospectus as "owned" by INA Group. As a result, INA Group may be unable to prove that it is the lawful owner of all of its property in the event that its ownership rights are challenged. In addition, the LOOR provides that the principle of reliance on the land registry shall not apply in respect of formerly socially-owned real estate until 1 January 2007. During this transitional period, persons entered in the land register as the holders of the "right of use" on 1 January 1997 are only presumed to be the owners of the real estate in question, and this presumption may be rebutted.

INA Group filed requests with the competent land registries to delete the "right of use" granted to INA Group's legal predecessors under the socialist regime and simultaneously to register its ownership over its real estate. INA Group has also commenced litigation or land registry data correction procedures in order to prove its title or remove formal deficiencies in the documents required for registration of its ownership rights. Although most of these requests and actions have been successfully resolved, a considerable number of ownership registration requests and litigation claims are still pending, including with respect to approximately 120 of INA Group's petrol stations.

In addition, certain of the petrol stations operated by INA Group, or registered as INA Group property, were built on land categorized as public property and may therefore not be subject to ownership or any other real right. INA Group has yet to be granted the concession required in order for it to have the valid title necessary for the operation of at least 12 petrol stations along the Croatian coast.

In addition, any disposal of properties belonging to companies seated in the territory of an ex-Yugoslav republic is invalid, so the validity and entry into force of the lease agreement pursuant to which INA Group operates petrol stations in Croatia owned by the Bosnia and Herzegovina-incorporated Energoinvest may be disputed.

The Law on Compensation for Property Expropriated during the Yugoslav communist regime (Official Gazettes 92/96, 92/99, 80/02 and 81/02) authorized expropriated owners or their immediate heirs to request restitution in kind (i.e., full restitution of property rights) or compensation in shares from the Croatian Privatization Fund portfolio or bonds of Croatia for their property expropriated or "nationalized" during the Yugoslav communist regime. Pursuant to the Law on Privatization of INA, a certain number of INA's shares which remain after the privatization are intended for restitution purposes. INA Group has been informed by the competent County Offices for Property and Legal Affairs of seven denationalization proceedings concerning INA Group's property. Although the deadline for submitting requests for denationalization has expired, so no further claims should be expected, due to the absence of a unified registry of all denationalization requests and the fact that INA Group is not a party to the proceedings, INA has not been able to establish the final number or extent of these requests.

Pursuant to the Law on Foundation of the Public Company INA — Industrija Nafte (Official Gazettes 42/1990 and 61/1991), all socially-owned assets on the balance sheets of the companies that merged into the state-owned company INA on 30 September 1990 were transferred to INA. Due to the aforementioned, INA Group does not possess any document which would separately identify each property that was transferred to INA by operation of law. As a result, there is a risk that INA Group will not be able to oppose all requests for restitution in kind in respect of its property by providing valid proof of its ownership title, although the management of INA Group believes that, as its ownership of the majority of its material property has been registered, the risk of denationalization proceedings resulting in INA Group's property being transferred to a former owner is insignificant and that they are more likely to be compensated by obtaining shares in INA, to be reserved for the former owners pursuant to the Law on Privatization of INA. See "Regulation — Croatia — Law on Privatization of INA".

The Building Act (Official Gazettes 175/2003 and 100/04) sets a general rule that building may commence on the basis of a legal building permit, unless otherwise determined by that Act, and that the use of the building may commence only upon issuance of the usage permit by the competent authority.

Significant numbers of INA Group's petrol stations throughout Croatia and the production facilities within the Sisak and Rijeka refineries do not have building and usage permits.

The official sanctions for this absence of, or potential defect in, INA Group's building and use permits may include INA Group being required to dismantle or destroy certain of its facilities and buildings at its own expense, or being prohibited from carrying out certain activities at the facilities in question. If the competent inspection authority determines that, as a result of this absence or defect, INA Group's production or exploration activities do not meet applicable safety, environmental and property protection standards, there is a risk that the production or exploration license for the field in question may be revoked. INA Group has not been subject to any of these sanctions or suffered any other material adverse effect on its business in the past, and does not expect to suffer any such sanctions or material adverse effect in the future.

There can be no assurance, however, that this will be the case until INA Group procures all of the necessary building and use approvals for each of its facilities.

European Union

EU environmental laws and regulations

INA is subject to numerous laws and regulations with respect to protection of the environment in each country in which it operates. The number of these laws and regulations has increased over the past years and such laws and regulations have become more stringent and have been more strictly enforced by the respective authorities. This includes the environmental laws of Croatia which are most relevant to INA's operations. EU environmental standards are generally higher than most countries outside the EU (other than the U.S.) and accordingly countries like Croatia, that may join the EU are likely to be required to adopt more stringent environmental laws.

The following summary outlines some of the environmental legislation with which Croatia will have to conform its own legislation during the harmonization period in the event that Croatia accedes to the EU at some time in the future and which will be most relevant to INA's operations. These laws and regulations have either already been implemented by member states of the EU or are expected to come into force in the near future.

Integrated pollution prevention and control

EC Directive 96/61/EC came into force on 30 October 1996. It aims to achieve integrated prevention and control of pollution from a wide range of activities, including the energy, mineral and chemical industries, through the prevention or reduction of emissions to air, water and land.

The Directive requires that installations are operated in such a way to ensure that all appropriate preventative measures are taken against pollution, in particular through the application of Best Available Techniques (BAT). Every installation falling under the scope of the Directive is required to be permitted. Conditions attached to each permit are designed to ensure that there will be no breach of EU environmental quality standards or other EU legislation through the control of the operation and performance of the plant as a whole and implementation of monitoring requirements.

In the event that Croatia accedes to the EU, compliance with the Directive by INA Group is expected to require technological and operational improvements at many installations, most specifically at the oil refineries. Although the modernization program for the refineries has taken account of this Directive and the plans include the application of BAT it is possible that further and/or additional improvements may require significant material expenditure.

The refinery modernization program covers the main process improvements which are required at the Rijeka and Sisak oil refineries but does not cover any improvements which would be required at Maziva Zagreb (which is owned by a wholly owned subsidiary of INA) or for other ancillary processes at any of the refineries e.g. waste water treatment. Hence substantial expenditure, in addition to the refinery modernization program, is likely to be required in some areas of the business to comply with the directive. This expenditure is included in the estimates of Golder Associates referred to in "Business — Health, Safety and Environment".

Emission Directive

EC Directive 2003/87/EC on emission trading (the "Emission Directive") regulates emissions with a view to reducing greenhouse gases. The Emission Directive establishes a scheme of greenhouse gas emission allowance trading in order to promote reductions of greenhouse gas emissions in an economically efficient manner. Installations that are listed in the directive are allocated a certain number of emission certificates allowing a predetermined amount of greenhouse gas emission. Certificates are freely tradable, which is intended to create a market for emission permits. The total number of certificates for the entire EU is fixed and decreases on a regular basis. The goal is to lower greenhouse gas emissions in compliance with the Kyoto Protocol, as prices for certificates are expected to be higher than the costs of installing production facilities that reduce the emission of greenhouse gases.

Although the Croatian Parliament has not ratified the Kyoto Protocol, which entered into force in February 2005, Croatia is a signatory, and it is anticipated that ratification will take place in 2008. The Kyoto Protocol is intended to limit or discourage emissions of greenhouse gasses, such as CO_2. The effect of such ratification is still unclear, as the level of permissible CO_2 emissions may reflect the fact that initial negotiations were commenced by the former Federal Republic of Yugoslavia. Accordingly, Kyoto compliance costs are unknown. Nonetheless, assuming that ratification occurs, the likely effect will be to increase costs for electricity and transportation, restrict emissions levels, impose added costs for emissions in excess of permitted levels and increase costs for monitoring, reporting and financial accounting.

Auto-Oil Directive

EC Directive 98/70/EC relating to the quality of motor fuel, as amended by EC Directive 2003/17/EC (the "Auto-Oil Directive"), provides for specifications aiming at a substantial reduction in pollutant emissions from motor vehicles. Pursuant to the Auto-Oil Directive, individual member states are required to ensure that all unleaded gasoline marketed within their territory complies with certain specifications regarding levels of sulphur, aromatics, octane for petrols and cetane for diesel fuels, methanol and ethanol. Member states are also required to ensure that sulfur-free (less than 10 ppm sulfur content) motor fuel be available on the market within their territory by 1 January 2005, and, by 2009, all motor fuel marketed within their territory be sulfur free. INA's refineries are expected to produce all their products in compliance with EURO V specifications, following completion of the modernization program.

REACH Regulation

An EU regulation, "Registration, Evaluation and Authorization of Chemicals" (the "REACH Regulation"), was proposed by the European Commission in October 2003 and is currently being discussed by the European Council. The proposal envisages a new system of chemicals management by introducing a central database. Enterprises that manufacture or import more than 1 tonne of a chemical substance would be required to register it into the database, as well as information on its properties and safe handling.

Recent amendments to Seveso-II Directive

In 1982, following a major accident at a chemical plant in Seveso, Italy six years earlier, Council Directive 82/501/EEC on the major-accident hazards of certain industrial activities — so-called "Seveso Directive" was adopted. The Directive was amended twice, in 1987 and 1988, in light of further major accidents including the release of fire-fighting water contaminated with mercury and pesticides into the Rhine at Basel, Switzerland causing massive pollution and the death of half a million fish. In 1996 the Directive was replaced by Council Directive 96/82/EC on the control of major-accident hazards — so-called "Seveso II Directive". Seveso II introduced new and wider concepts including safety management systems, environmental planning and land-use planning underpinning its aims of preventing major-accident hazards involving dangerous substances and limiting the consequences to man and the environment when major accidents do occur.

The Seveso-II Directive has been extended by Council Directive 2003/105/EC. This provides in particular that chemical and thermal processing operations and storage related to exploitation of minerals in mines, quarries, or by means of boreholes is also subject to the rules of major-accident prevention and to the requirements of producing a safety report. Member states are required to implement the directive by 1 July 2005, and, by 1 October 2005, all establishments which fall under the amended directive must comply with its regulations. INA believes that the effects of the Seveso-II

Directive on it would be limited, if it were to be required to comply with it. INA expects that the inclusion of thermal and chemical processing in mineral exploitation will make some additional preventive measures necessary.

NEC directive

EC Directive 2001/81/EC on National Emission Ceilings for certain atmospheric pollutants (the "NEC Directive") provides for a reduction of emissions of sulfur dioxide (SO_2), nitrogen oxide (NO_X), volatile organic compounds (VOC) and ammonia (NH_3). The ultimate goal of the directive is that, by 2010, emissions of atmospheric pollutants in each member state of the EU will not exceed certain levels.

Biofuel directive

EC Directive 2003/30/EC on the promotion of the use of biofuels and other renewable fuels for transport (the "Biofuel Directive") provides that member states shall set national indicative targets on the percentage of biofuels used. A reference value of 2 per cent. (calculated on the basis of energy content) has been set for the end of 2005 and, by 2010, this reference value shall be 5.75 per cent. The directive suggests that, in addition to environmental benefits, cost reductions in distribution could be achieved by blending biofuels and fossil fuels. As of today, member states have not enacted legislation to implement the directive.

Majority Shareholders

The following table sets forth information regarding the ownership of INA's shares as of the date of this prospectus and as adjusted to reflect the Offering and the exercise of the over-allotment option in full.

	Shares owned before the offering		Shares offered in the Offering	Shares owned immediately after the Offering		Shares offered pursuant to the over-allotment option	Shares owned after the Offering assuming exercise of over-allotment option	
Beneficial owner	**number**	**per cent.**	**number**	**number**	**per cent.**	**per cent.**	**number**	**per cent.**
Croatia	6,799,999	67.99999	1,500,000					
MOL	2,500,001	25.00001	0	2,500,001	25.00001	0	2,500,001	25.00001
The War Veterans' Fund	700,000	7.00	0	700,000	7.00	0	700,000	7.00
Public float	—	—	—					
Total	10,000,000	100	1,500,000	10,000,000	100		10,000,000	100

To the best of the knowledge and belief of INA, there are no shareholders of INA other than Croatia, MOL and the War Veterans' Fund who, directly or indirectly, jointly or severally exercise or could exercise control over INA.

Recent Changes in Principal Shareholders

The first phase of INA's privatization was completed on 10 November 2003, when MOL acquired 25 per cent. plus one share of INA.

Following a decision of the Government on 12 October 2005, 7 per cent. of INA's shares held by Croatia were transferred to the War Veterans' Fund. On 14 October 2005, the Croatian Parliament approved this decision of the Government, which was announced in the Official Gazette of the Republic of Croatia no. 122/2005.

The War Veterans' Fund was established in accordance with the Act on the Fund of Croatian Homeland War Veterans and Their Family-Members (published in the Official Gazette no. 163/03 and 82/04) adopted by the Croatian Parliament. The War Veterans' Fund is, by its nature, an open-ended investment fund, whose members are determined by the aforementioned act.

Description of the Shareholders' Agreement

On 17 July 2003, Croatia and MOL (each, a "Shareholder" for purposes of the discussion below) entered into a Shareholders' Agreement (the "Agreement") relating to INA.

Supervisory Board composition

The Agreement provides that the Supervisory Board of INA will be composed of seven members. A Shareholder that, directly or indirectly, owns more than 25 per cent. but not more than 50 per cent. of the shares of INA has the right to nominate two members for appointment to the Supervisory Board. A Shareholder that owns more than 50 per cent. of the shares of INA has the right to nominate four members for election to the Supervisory Board. In either case, the Shareholders undertake that they will vote in favor of the election of such nominees at a General Assembly meeting. A member of the Supervisory Board appointed pursuant to the Agreement can only be removed with the consent of the Shareholder that appointed him/her and the Shareholders agree to exercise their votes at the General Assembly accordingly. If a member of the Supervisory Board who was appointed pursuant to the Agreement resigns, is removed, incapacitated, or otherwise unable or unwilling to perform his duties, the Shareholder that nominated it shall be entitled to nominate a successor.

Reserved matters

According to the terms of the Agreement, resolutions or decisions of the Management Board in relation to the following matters (the "Reserved Matters") require the prior approval of the Supervisory Board by way of an affirmative vote by six out of seven of the members of the Supervisory Board:

(a) the approval of, or any amendment to, the annual budget of INA and the approval of any capital expenditure which is in excess of 10 per cent. of the current annual budget;

(b) the approval of or any amendment to the business plan of INA;

(c) the granting by the member of INA Group of any security over real property or fixed assets or receivables or issuing of a guarantee where the principal amount under the guarantee exceeds HRK 80 million or where the total amount of such securities or guarantees within a given financial year exceeds HRK 200 million, or the sale, lease, exchange, transfer or other disposition of any real property or other assets of a member of INA Group which have a value in excess of HRK 80 million or where the total value of such assets disposed of within a given financial year exceeds HRK 200 million or where the value of such real property or asset is less than the above mentioned thresholds, the sale, lease, exchange, transfer or other disposition of any real property or other assets of a member of INA Group which are, in the opinion of the Management Board, significant to the business of INA Group;

(d) the issue, save as provided in the Law on Privatization of INA, or listing of any securities of any member of INA Group (other than INA) with a nominal value in excess of HRK 80 million;

(e) the making of any loan or advance by a member of INA Group to any person for a principal amount in excess of HRK 80 million, or where the total loans or advances provided by members of INA Group within a given financial year exceeds HRK 200 million;

(f) the variation or termination of any existing contract with a value in excess of HRK 20 million which is not in the ordinary course of business and to which a member of INA is a party;

(g) the borrowing of any sums or the obtaining of any advance or credit, in aggregate in excess of HRK 200 million by a member of INA Group at any time except for credit received in the ordinary course of business;

(h) the entering into of any joint venture by a member of INA Group in respect of a material part of its downstream, wholesale or retail business;

(i) the acquisition of any real property by a member of INA Group where the consideration exceeds HRK 80 million or where the total amount of acquisition of real property within a given financial year exceeds HRK 200 million;

(j) the introduction of, or any amendment to, any employee stock option plan by a member of INA Group (except plans envisaged in the Law on Privatization of INA);

(k) the granting of a *"prokura"*, a joint or single commercial power of attorney for undertaking legal acts in the name and for the account of INA and representing INA in administrative, court or arbitration proceedings, except in relation to disposing of or encumbering INA's real estate, undertaking actions leading to bankruptcy or closing down of INA or granting powers of attorney to third persons, unless particularly authorized to do so;

(l) changing the accounting policies of INA or of INA Group;

(m) the cessation of any of the core business activities of INA Group or the re-organization of substantially all of its business; and

(n) amending or replacing the rules of procedure of the Management Board or the rules of procedure of the Supervisory Board.

Deadlock

If the Supervisory Board cannot reach agreement on any resolution in relation to any Reserved Matter within 21 days of such resolution first being tabled at a Supervisory Board meeting, or two or more consecutive Supervisory Board meetings have been dissolved because a quorum is not present, each party will nominate an individual with appropriate experience and standing (and, in any event, occupying a position no less senior within the parties' respective organizations than that occupied by their representatives on the Supervisory Board) who has not been involved directly in the business to whom the subject of the resolution before the Supervisory Board shall be referred. The two individuals nominated will consider the matter referred to them and seek to reach an agreement on it.

If, having used reasonable efforts to reach agreement, the individuals nominated by the parties cannot effect agreement on the matter referred to them for mediation within 28 days of that matter being referred to them, the matter may be referred by either of them to the Chief Executive of MOL and the Minister of Economy to resolve the matter. If any matter remains unresolved by the Chief Executive of MOL and Minister of the Economy for a period of 60 days after the expiry of 28 days after it is referred to them, the provisions of the Agreement will continue in full force and effect in relation to INA, which will continue to be managed and the business will continue to be carried on as it is then being carried on, in each case in accordance with the then current business plan or annual budget (unless such dispute relates to the adoption of the business plan or annual budget, in which case the previous business plan or annual budget will be deemed to continue). The Shareholders will continue to fulfill their obligations under the Agreement but no new projects or business activities will be undertaken which would or might reasonably be expected to be affected by the dispute, unless either the Shareholders agree, or refraining from taking such action would give rise to a breach of any existing contractual commitment to a third party.

Management Board composition

The Agreement provides that the Management Board of INA will comprise seven members and a Shareholder that, directly or indirectly, owns more than 25 per cent. but not more than 50 per cent. of the outstanding issued shares of INA, shall have the right to nominate two members for election to the Management Board. The Shareholders undertake that they will procure that their representatives on the Supervisory Board will vote in favor of such nominees at a meeting of the Supervisory Board. In case MOL, directly or indirectly, owns more than 50 per cent. of the outstanding issued shares of INA, it shall have the right to nominate four members for election to the Management Board and Croatia undertakes that it will procure that their representatives on the Supervisory Board will vote in favor of such nominees at a meeting of the Supervisory Board. MOL is entitled to nominate a member to the Management Board who shall act as Chief Financial Officer and a member who shall act as Chief Corporate Services Officer.

Shareholders' undertakings

Croatia has undertaken to MOL that:

(a) if Croatia grants, at any time, its approval to any investor, other than MOL, to acquire more than 10 per cent. of the issued share capital of INA, such approval will be given to MOL subject to the same conditions;

(b) it will use its reasonable efforts, subject to Croatian Law, to ensure that INA's title to all real property to which it can validly assert title is properly registered in accordance with the Law on Ownership and Other Real Rights; and

(c) it will use its reasonable efforts, subject to Croatian law, to assist INA in obtaining all the licenses that it needs to carry out its business and that it will deal with any applications for such licenses fairly and promptly in accordance with Croatian law.

MOL has undertaken to Croatia that:

(a) in Croatia, it will conduct (i) the operation of the exploration and production of oil and natural gas; (ii) the refining of crude oil products; (iii) the sale, distribution and marketing of oil, oil products and derivatives and natural gas in the wholesale market including direct sales to (A) certain large consumers ("Wholesale Activities") and (B) to domestic, industrial, commercial and other end-users ("Retail Activities") and (iv) any merger and acquisition strategy for those purposes solely through its participation in INA and under INA's trade and service marks and brand names. However, MOL is not prohibited from selling refined oil products and conducting ancillary retail activities through Croatian retail outlets, provided that such retail outlets sell INA's refined oil products as part of INA's Wholesale Activities in preference to other refined oil products. Such products shall be supplied to the buyer on the most favorable market terms to actual buyers of similar volumes of products with the same specifications ("Preferred Supply Terms");

(b) it will, to the extent lawful, collaborate by entering into joint ventures, or contractual or other arrangements in good faith with INA in the exploitation of its retail activities in Bosnia and Herzegovina, Montenegro, Kosovo, Albania and Serbia (the "SEE Markets") where this will further the joint objectives of promoting additional competition in those markets while enhancing mutual cost and operational efficiencies and economies of scale within the operations of MOL and INA. Such collaboration shall be carried out as follows:

    (i) MOL has agreed that, to the extent that prevailing local market conditions make it economical to develop new sites within the SEE Markets and where any such new sites are proposed for development of Retail Activities by INA or MOL, such development be carried out by INA as an INA-branded and operated site, such that INA will have the preferential right to supply refined oil products to such site on Preferred Supply Terms;

(ii) INA's right to develop sites shall be subject to either capital expenditure relating to the development of such (A) being within the capital expenditure limits for petrol station development as set out in the business plan and annual budget; or (B) being included as part of a decision by INA to amend the scope of the relevant business plan and annual budget to implement and commence construction at such site within a 12-month timeframe subject only to approving, where necessary, increased capital expenditure limits;

(iii) In the event this is not satisfied, save in the case where it is not satisfied solely by reason of MOL not procuring votes of its representatives in favor of the approval of the necessary capital expenditure, MOL shall be free to develop, supply and operate such site under its own brand and without restriction on choice of product supply; and

(c) it will, to the extent lawful, collaborate by entering into joint ventures, contractual or other arrangements in good faith with INA in the conducting of the sale, distribution and marketing of oil, oil products and derivatives and natural gas in the wholesale market including direct sales to large consumers but other than sales to traders which are not affiliates of MOL as principal or supply to the retail outlets of INA or MOL in the SEE Markets where this will further the joint objectives of promoting additional competitiveness in those markets while enhancing mutual cost and operational efficiencies and economies of scale within the operations of MOL and INA for the purposes of giving effect to such collaboration, MOL and INA shall supply and sell refined oil products as part of Wholesale Activities through a single or harmonized distribution channel in any country within the SEE Markets, provided that such collaboration shall not be required if it causes either INA or MOL to lose its current market share for any such product in any such country.

MOL is also required to procure that:

(a) it shall not obtain for its own business or that of any affiliate any competitive advantage from its possession of any business, financial, operational or other information relating to INA or MOL or their affiliates which is confidential or not generally known ("Protected Information");

(b) Protected Information is not used by any affiliate of the MOL Group (MOL and its affiliates) for the purpose of obtaining any commercial advantage for any MOL Group affiliate from its possession of Protected Information;

(c) it will continue to carry out petroleum activities as a core business activity; and

(d) in the event that Croatia or the Government acting on its behalf offers shares to the public for the first time, it will cooperate fully with all reasonable requests for information made in connection with such Offering and will provide Croatia or the Government with such assistance as they may reasonably request.

MOL has also undertaken to procure that the members of the Supervisory Board and Management Board that it nominated will not exercise their voting rights or take any other action to:

(a) for a period of three years from the date of the Agreement, dismiss any employee of INA or any member of INA for redundancy as set out in the provisions of the Croatian Labor Law or for any other reason other than for cause; or

(b) dispose of either the Rijeka refinery or the Sisak refinery.

It has also procured that its nominated members to the Supervisory and Management Boards will exercise their voting rights to procure that INA maintains and develops the Rijeka refinery and the Sisak refinery in accordance with the business plan.

Within a period of five years from November 2003, MOL may not, without the prior written consent of Croatia, on such terms as Croatia may specify:

(a) directly or indirectly transfer shares acquired from Croatia (25 per cent. plus one share);

(b) pledge, mortgage, charge or otherwise encumber shares acquired from Croatia; or

(c) directly or indirectly grant, declare, create or dispose of any right or interest in any shares acquired from Croatia (including entering into any arrangement in respect of the exercise of the votes in relation to any such shares acquired from Croatia),

save for (i) those shares that are subject to sale pursuant to the Law on Privatization of INA (the transfer, without compensation, of 7 per cent. of INA shares to the War Veterans' Fund and the sale of a maximum of 7 per cent. of

INA shares to present and former employees of INA Group on terms set by the Government), (ii) those shares that are subject to sale pursuant to the Law on Privatization of INA where such sale is by means of a public offering and (iii) any other shares that are subject to any public offering, where Croatia agrees to sell any or all of its shares (the "Offer") to a third party (the "Proposed Purchaser") and the Proposed Purchaser (and persons acting in concert with the proposed Purchaser) will as a result of such purchase hold more than 25 per cent. plus one share in the share capital of INA, the acceptance of such offer by Croatia is conditional upon the following terms being complied with in all respects and that condition not being waived.

Croatia may complete a sale pursuant to the Offer if:

(a) it dispatches a notice within 30 days of conditionally accepting the Offer, notifying MOL of the main terms of the Offer and that it has contracted to accept the Offer;

(b) the Proposed Purchaser has made a binding written offer to MOL at the same price per share and on terms that are not worse than those in the Offer and that the Offer is kept open for at least 60 days from delivery of the notice sent by Croatia to MOL; and

(c) the 60 day period has elapsed without MOL refusing or accepting the Offer or MOL has accepted and completed the Offer.

Dispute resolution and termination

The following dispute resolution procedures shall be the binding and exclusive means to resolve all disputes between the parties and either party to the Agreement may invoke the procedures by providing written notice of any dispute to the other party. Within 20 business days after notice is given, the parties shall attempt to resolve the dispute through negotiations at a meeting in Zagreb, which shall be attended by representatives of each party having decision-making authority as well as by management-level personnel of each of the parties who have not previously been directly engaged in directing or responding to the dispute. All disputes which may arise between the parties in connection with the Agreement which are not settled in a dispute resolution procedure shall be finally settled by arbitration in accordance with UNCITRAL. Three arbitrators shall be appointed. One arbitrator shall be appointed by each party and the two arbitrators will agree on the third arbitrator, who shall act as the chairman of the arbitral tribunal. Awards rendered in any arbitration hereunder are final and conclusive and judgment thereon may be entered into in any court having jurisdiction for enforcement. There is no appeal to any court from awards rendered.

The Agreement, if not terminated by mutual agreement or by notice of termination of each party, will continue in full force and effect for an unlimited duration. The Agreement will automatically terminate upon the date that either party ceases to own at least 25 per cent. plus one share of the issued share capital of INA.

Croatia may terminate the Agreement by notice of termination given to MOL if:

(a) MOL commits a material breach of the Agreement and fails to remedy the breach, where possible, within 30 days of receipt of notice; and

(b) MOL becomes insolvent or goes into liquidation, receivership or administration or makes a composition with its creditors (otherwise than for the purposes of a reconstruction or amalgamation).

MOL may terminate the Agreement if Croatia commits a material breach of the Agreement through willful misconduct or bad faith and fails to remedy the breach, where possible, within 30 days of receipt of notice.

Description of the Cooperation Agreement

On 17 July 2003, INA and MOL entered into the Cooperation Agreement relating to INA. The Cooperation Agreement will continue in full force and effect until the Shareholders' Agreement is terminated. Pursuant to the Cooperation Agreement, the parties agree that the business of INA will be the continuation and development of its activities in the spheres of exploration for and production, refining, wholesale and retail of oil and natural gas and oil and natural gas products, and the provision of onshore and offshore oil-field-related services, conducted in accordance with applicable law, the Articles of Association, the Shareholders' Agreement, the annual budget and the business plan and that the parties shall cooperate in good faith and use their best efforts to ensure that INA is able to carry on the business as described.

MOL agreed to cooperate with INA in a manner customary to such agreements, including cooperating with regards to licensing arrangements of certain intellectual property rights and the creation of project teams for each of INA's principal business divisions.

MOL undertook to perform all activities of exploration and production and refining of crude oil, sale and distribution in wholesale and direct sale to large consumers solely through its participation in INA and under INA brand names.

Pursuant to the terms of the Agreement, INA and MOL have agreed to collaborate, through joint ventures, contractual or other arrangements, in the exploitation of its retail activities in the SEE market, under INA brand. Further, through joint ventures, contractual or other arrangements, the sale, distribution and marketing of oil, oil products and derivatives and natural gas to the wholesale market of the SEE, shall be through a single or harmonized distribution channel.

In accordance with a contract effective from 1 October 2005 between INA and MOL, INA pays MOL compensation of U.S.$100,000 per month, such fee to be revised annually, for services provided by MOL's personnel, including the Executive Director of Finance and the Director of Corporate Services of INA, for their work on the INA Management Board.

Related Party Transactions

Parties are considered to be related if one party has the ability to control the other party or to exercise significant influence or joint control over the other party in making financial and operating decisions. INA's transactions and outstanding balances with related parties, details of which are set out in Note 32 to the Audited Financial Statements and Note 21 to the Unaudited Financial Statements, can be categorized as follows.

Transactions with related companies

Trading transactions

In the ordinary course of its business, INA enters into and will continue to enter into agreements for the sale and purchase of crude oil and refined products, including LPG, (i) with INA's strategic shareholder, MOL, and/or its subsidiaries, (ii) with other companies within INA Group and (iii) the joint venture companies in which INA has a fifty per cent. stake, EdINA and INAgip. Under these agreements, sales and purchases are made on the basis of arm's length prices with, in each case, a discount reflecting the trading relationship between the parties.

INA also purchases crude oil through Inter INA (Guernsey) Limited and Inter INA Limited, using trade financing provided by a bank. These financings are usually secured by corporate guarantees provided by INA.

Service agreements

In the ordinary course of its business, INA procures services from companies which it wholly or partly owns, such as onshore and offshore drilling and well services (Crosco), maintenance engineering activities (STSI), safety and security services (Sinaco) and construction works (Inter INA Mostar).

INA has entered into a long-term contract with JANAF (expiring in 2010), for the transportation of crude oil from JANAF's oil terminal in Omišalj to the Rijeka and Sisak refineries, and from JANAF's oil terminal in Virje and the Croatian/Hungarian border to the Sisak refinery. INA holds 16 per cent. of the shares in JANAF.

INA also enters into contracts for the use of its petrol stations and other real estate with companies which it wholly or partly owns, including in Bosnia and Herzegovina (Holdina Sarajevo and Inter INA Mostar).

In addition, see "— Description of the Cooperation Agreement" above.

Financing and guarantees

In the ordinary course of its business, INA makes loans to its subsidiaries to finance certain investments. For example, in 2006, INA lent Crobenz HRK 30 million to finance the reconstruction of petrol stations, and lent HRK 52 million to Crosco for the upgrade of the Zagreb 1 platform. In 2005, INA lent Proplin EUR 2.5 million to invest in movable liquefied natural gas car fillers. These loans are generally repayable in equal instalments over specified periods and may be secured.

INA also provides corporate guarantees in favour of its subsidiaries, for example, in relation to the financing of crude oil purchases through Inter INA (Guernsey) Ltd. and Inter INA Limited, mentioned above.

Transactions with companies controlled by Croatia

Trading transactions

In the ordinary course of its business, INA regularly enters into agreements for the sale of oil products and natural gas with entities which are partially or wholly owned by Croatia, such as Hrvatske željeznice d.d. (Croatian railways) and HEP (Croatian electricity company). See “Risk Factors — Government regulation and intervention affect INA Group’s business”, “Risk Factors — INA Group is required to sell gas at regulated prices below international prices, which has a significantly negative impact on profits” and “Risk Factors — INA Group’s major shareholders may continue to exercise significant influence over its strategic direction and major corporate actions.”

Service agreements

INA’s transactions also include contracts for services with Croatia-controlled companies such as Hrvatske telekomunikacije d.d. Zagreb (telecommunication services) and Hrvatske željeznice d.d. (maintenance and repair works).

INA entered into a gas transportation agreement with Plinacro in September 2006, pursuant to which Plinacro undertook to transport natural gas owned by INA, to manage and supervise the natural gas transport system, and other obligations related to the technical functioning of the natural gas transport system. This agreement is valid from 1 January 2007 until 31 December 2011, with a possible extension.

Agreements with key management personnel concerning compensation

Full details of remuneration paid to the Management of INA are set out in Note 32 to the Financial Statements, and in “Management”.

DESCRIPTION OF SHARE CAPITAL AND SUMMARY OF ARTICLES OF ASSOCIATION

The following is a summary of the material terms of INA's shares, as set out in INA's Articles of Association and certain relevant provisions of the Croatian Companies Act and other relevant laws. This description is only a summary and does not contain everything that the Articles of Association contain. INA encourages you to read the full Articles of Association, which are available for inspection at INA's principal offices.

INA's current Articles of Association were last modified at the shareholders' meeting held on 28 October 2003 and apply in accordance with the Companies Act.

Share Capital

Pursuant to its Articles of Association, INA has the right to issue ordinary shares, and preferred shares and other securities provided for by Croatian law.

INA's current share capital consists of 10 million ordinary shares, each with a nominal value of HRK 900. INA has no authorized but unissued share capital as of the Closing Date.

All shares of INA are ordinary registered shares and provide shareholders with the following rights: (i) the right to vote at the shareholders' meeting, (ii) the right to receive a dividend and (iii) the right to a proportional share of the remaining assets of INA after liquidation or winding-up, subject to the terms and conditions provided in the Shareholders' Agreement and the Law on Privatization of INA. See "Regulation — Croatia — Law on Privatization of INA" and "Principal and Selling Shareholders and Related Party Transactions — Description of the Shareholders' Agreement". A resolution of the General Assembly is required in order to change the rights of holders of ordinary shares.

No share certificates were issued for the shares. Accordingly, the right to the shares is transferred by agreement or by deed of transfer. Title to the shares passes by entry in the share register kept with the Central Depository Agency (the "CDA"). The CDA is the only agency entitled to execute the deposit of dematerialized securities, the clearing and settling of securities transactions and other securities activities. Only the owner of the CDA account in which the dematerialized security is recorded is considered to be the owner of the security.

As of October 2003, the CDA holds INA's shares under identification number INA-R-A and ISIN HRINA0RA0007.

Increases in Share Capital

The Companies Act (Official Gazette 111/93, 34/99, 52/00 and 118/03) provides for four methods of increasing share capital:

(i) regular increase (i.e. contributions in cash or kind);

(ii) conditional increase in share capital;

(iii) authorized share capital; and

(iv) conversion of the capital gain, reserves and retained profits into share capital.

A resolution of the General Assembly in favor of a share capital increase must be passed by at least three-quarters of the share capital represented at the General Assembly meeting. In the case of a regular increase, existing shareholders shall have a pre-emptive right which can only be excluded, in whole or in part, through a resolution of the General Assembly.

The Management Board may be authorized to increase the share capital (authorized capital) of INA via a resolution of the General Assembly on adopting or amending INA's Articles of Association. Such authorized share capital may not exceed 50 per cent. of the total share capital at the time at which the authorization was given. Pre-emptive rights of shareholders are preserved, although they may be excluded if the authorization in the Articles of Association so provides.

During the last three years, INA's share capital has not been changed.

Pursuant to the Companies Act, a conditional increase in share capital may also be carried out, but only to the extent it is required to allow a conversion of convertible bonds into shares, or to satisfy persons with priority rights (such as employees and members of the Management Board) to subscribe new shares. The nominal amount of conditional capital may not exceed 50 per cent. of the total share capital at the time of the resolution approving the conditional increase in the case of a conversion of convertible bonds into shares, or 10 per cent. of the total share capital at the time of the resolution approving the conditional increase, in the case of a realization of the right to receive shares granted to employees and members of the Management Board.

Acquisition of Own Shares

Pursuant to the Companies Act, Croatian joint stock companies may not purchase their own shares, except in certain limited circumstances. INA may acquire its own shares in the following circumstances:

(i) the acquisition of shares is necessary to protect INA from serious and imminent danger;

(ii) the shares so acquired are to be offered to employees of INA or of an associated company;

(iii) the shares are acquired pursuant to INA's obligation to acquire shares in order to compensate its shareholders in accordance with certain provisions of the Companies Act;

(iv) INA acquires the shares for no consideration or, if the acquisition is made by a financial institution, for the account of a third party;

(v) the acquisition is based on universal legal succession;

(vi) the acquisition is made pursuant to the resolution of the General Assembly to withdraw shares in connection with the reduction in share capital; or

(vii) the acquisition is made pursuant to the authorization granted by the General Assembly for the period of up to 18 months, setting out the minimum and the maximum price and the percentage in the share capital, which may not be granted for the purpose of trading in shares.

Where shares are acquired in the circumstances referred to in (i), (ii), (iii) and (vii) above, the total nominal value of the shares to be acquired, when aggregated with the nominal value of shares already acquired by INA, may not exceed 10 per cent. of INA's share capital. In addition, INA must create reserves in respect of these shares in order to ensure that the share capital and legal reserves, as well as reserves prescribed by INA's Articles of Association which may not be used to make distributions to shareholders, are preserved. Only shares which are fully-paid may be acquired in the circumstances provided in (i), (ii), (iv) and (vii) above. Shares acquired in circumstances provided in (ii) above must be offered to employees within one year of their acquisition by INA.

The Companies Act expressly provides that the acquisition of INA's own shares contrary to the provisions set out in (i) to (vii) above is valid, but INA must dispose of them within one year of acquisition, or if INA acquires its own shares in excess of the limit of 10 per cent. of INA's share capital (but otherwise in accordance with the law), it must dispose of such shares in excess of the 10 per cent. limit within three years of acquisition. If INA fails to make such disposals within the relevant time limits, the shares must be withdrawn.

Business Objectives

Pursuant to Article 4 of INA's Articles of Association, the objectives of INA's business encompass, *inter alia*:

- the extraction of crude oil petroleum and natural gas and service activities incidental to oil and natural gas extraction;
- the production of coke oven products, refined petroleum products, other organic basic chemicals, fertilizers and nitrogen compounds;
- the production of gas and the distribution of gaseous fuels through distribution networks;
- the production and repair of spare parts in the petroleum industry;
- the production of machines, appliances and other fabricated metal products, the sale of and the trade with goods and products as well as substances of all kinds, in particular those mentioned above, including their export, import, stocking and storage, sea-port and airport services, international transportation (transportation of all kinds, including international forwarding and shipping services) and pipeline transport;
- various services, including construction and operation of facilities and ships, architectural and engineering activities and related technical consultancy, activities relating to physical planning and preparation of documentation required for issuance of location permits, operation of communication networks, catering, hotel industry and tourism, management and rental of real estate and movables, information technology, accounting and bookkeeping, provision and supply of industrial property and know how and expertise in the field of oil and natural gas exploration and production;

- the production and distribution of electricity, the supply of steam and hot water, and the collection, purification and distribution of water;
- research and experimental development in the fields of natural sciences and engineering, including technical testing and analysis, testing and issuance of certificates for devices operating under hazardous conditions, as well as offshore and sub-sea technical and exploration activities;
- activities relating to waste management, including recycling, collection, storage and processing of hazardous waste, environment protection activities, sewage and waste disposal and similar activities, technological-chemical cleaning of fuel tanks on petrol stations and of other tanks and containers in the petroleum and chemical industry, corrosion protection of process plants, systems and equipment, washing and lubrication of vehicles and servicing of fire-fighting devices;
- the purchase and sale of goods, management and administration of holding companies, representation of foreign companies and commercial intermediation on domestic and foreign markets, implementation of investment projects abroad and engagement of foreign contractors for investment projects in Croatia; and
- other activities in connection with the aforementioned.

INA may conduct any business and adopt any measures which are deemed to be necessary to or useful for achieving its corporate objectives. INA is entitled to buy, sell, rent and lease real estate. INA's Management Board may establish branches and representative offices in Croatia and abroad, and, with the consent of the Supervisory Board, it may establish other companies in Croatia and abroad.

Voting Rights

Each holder of shares in INA is entitled to exercise one vote per share.

Unless otherwise required by the Companies Act, resolutions of the General Assembly are passed by a simple majority of the votes cast by shareholders present in person or represented by their proxies or duly authorized representatives.

However, the Companies Act requires that certain significant resolutions must be passed by a majority of the votes cast and a majority of at least three-quarters of the share capital present (in person or by proxy) at the passing of the resolution.

Pursuant to INA's Articles of Association, the extraction of crude oil petroleum and natural gas in Croatia and the transport of gas by pipeline are among the key objects of INA. The Management Board must request the consent of the General Assembly for every transaction concerning in any way the disposal of an essential part of INA's property relating to these objects, including the establishment of, or participation in, other companies. General Assembly consent is not required for the Management Board to dispose of non-essential parts of such property in the ordinary course of business. A General Assembly resolution granting approval to the Management Board shall be passed if the number of votes cast reflects at least 75 per cent. of the share capital represented at the General Assembly.

General Assembly (Shareholders' Meeting)

The powers of the General Assembly of INA are defined by the Companies Act and INA's Articles of Association. Its principal functions are the election and removal of Supervisory Board members, the adoption or the consideration of the annual financial statements (depending on the decisions of the Supervisory Board and the Management Board on such annual financial statements), the distribution of profits, the approval of the supervision and management of INA by the Supervisory Board and the Management Board (vote of confidence), the appointment of auditors, amendments to the Articles of Association, increases and reductions in share capital and the winding down of INA. The Companies Act also empowers the General Assembly to perform certain other functions, such as the approval of mergers or consolidations and the change in the legal form of INA. The General Assembly may not pass resolutions on Company management issues, unless so requested by the Management Board.

The Management Board usually calls the meeting of the General Assembly, although it is possible for the Supervisory Board to call a meeting. In order to provide protection for minority shareholders, the Companies Act also permits a General Assembly to be called at the request of shareholders holding at least 5 per cent. of INA's share capital.

A meeting of the General Assembly must be held within the first eight months of a business year for the purpose of adoption and/or consideration of (consolidated and non-consolidated) annual financial statements, the

Supervisory Board's report on the annual financial statements, the Management Board's report on the status of INA and the proposal on the distribution of profits. In addition, the Management Board must call a meeting of the General Assembly in the event that INA incurs losses amounting to one half of its share capital.

Resolutions of the General Assembly are passed by a simple majority of the votes cast, unless the Companies Act or INA's Articles of Association require a greater majority and/or fulfillment of additional conditions.

Accordingly, in certain circumstances, such as amendments to the Articles of Association, increases in share capital and the exclusion of pre-emption rights in respect of such increases in share capital, a "qualified majority" (i.e. votes representing 75 per cent. of the share capital present at the General Assembly) is required.

INA's shareholders' meetings take place in Zagreb. Notice of a meeting of the General Assembly must be published at least 30 days before the 10th calendar day prior to the date of a meeting of the General Assembly.

Only those shareholders who have announced their intention to attend the meeting at least 10 days before such meeting have the right to attend and vote at a meeting of the General Assembly.

The quorum for a meeting of the General Assembly is shareholders or their proxies or representatives holding more than 50 per cent. of the nominal share capital.

Supervisory Board

The Supervisory Board is responsible for the appointment and removal of Management Board members and for supervising the Management Board of INA. The latter responsibility may involve reviewing corporate records and calling a meeting of the General Assembly.

Certain major or unusual transactions such as large capital expenditure items, the assumption of long-term indebtedness or significant appointments may require the consent of the Supervisory Board. The Supervisory Board does not, however, supervise the day-to-day business of INA.

Pursuant to INA's Articles of Association, the Supervisory Board consists of seven members. As at the date of this prospectus, six members of the Supervisory Board have been appointed. MOL is entitled to nominate, appoint and remove from time to time two members of the Supervisory Board as long as it holds 25 per cent. plus one share of INA. Four members are appointed and removed by the General Assembly and these members are nominated by Croatia. Employees of INA are entitled to appoint one member of the Supervisory Board pursuant to the Labor Law; however, as at the date of this prospectus, no such member has been appointed.

The term of office of Supervisory Board members is four years and may be renewed. The number of renewals is not limited by the Articles of Association. A member of the Supervisory Board elected by the General Assembly may be removed by 75 per cent. of the votes cast at a General Assembly meeting. The Supervisory Board appoints a President and a Vice President from among its members.

The members of the Supervisory Board may resign from their position by delivering a letter of resignation to the President or the Vice President of the Supervisory Board or of the Management Board. A member of the Supervisory Board elected by employees may resign from his position by delivering a letter of resignation to the election committee that appointed him, in accordance with the Labor Law. Membership of the Supervisory Board ceases within one month of the delivery of the letter of resignation.

Supervisory Board meetings are convened by the President or, in his absence, the Vice President. The Supervisory Board may only pass a decision if a quorum is present. A quorum is present if the majority of the members of the Supervisory Board are present at the meeting in person or by telephone, including the President or Vice President. The Supervisory Board passes decisions by a majority of the votes cast, and in the case of a tie, the President's vote will be the tie-breaking vote.

The approval of certain actions of the Management Board set out in Article 19.1 of INA's Articles of Association require the affirmative vote of at least six members of the Supervisory Board. These actions include:

- the approval of the Annual Budget, any amendments to the Annual Budget, and the approval of any capital expenditure which is in excess of 10 per cent. of the then current Annual Budget;
- the approval of the Business Plan, and any amendments to the Business Plan;
- the granting by a member of INA Group of any security over real property, fixed assets or receivables of a member of INA Group, or the issuance of a guarantee where the principal amount of the security or liability under the guarantee exceeds HRK 80 million, or where the total amount of such securities or guarantees within a given financial year exceeds HRK 200 million;

- the sale, lease, exchange, transfer or other disposition of any real property or other assets of a member of INA Group which have a value in excess of HRK 80 million, or where the total value of such assets disposed of within a given financial year exceeds HRK 200 million, or where the value of such real property or asset is less than the thresholds in the sale, lease, exchange, transfer or other disposition of any real property or other assets of a member of INA Group which are, in the opinion of the Management Board, significant to the business of INA Group;
- the issue, save as provided in the Law on Privatization of INA, or listing of any securities of any member of INA Group (other than INA) with a nominal value in excess of HRK 80 million;
- the grant of any loan or advance payment by a member of INA Group to any person where a principal amount is in excess of HRK 80 million, or where the total loans or advances provided by members of INA Group within a given financial year exceed HRK 200 million;
- the variation or termination of any existing contract to which a member of INA Group is a party with a value in excess of HRK 20 million where such variation or termination is otherwise than in the ordinary course of the business of INA;
- borrowing of any sums or the obtaining of any advance or credit, in aggregate in excess of HRK 200 million in each case by a member of INA Group at any time except for credit received in the ordinary and usual course of INA's business;
- the entering into of any joint venture by a member of INA Group in respect of a material part of the downstream, wholesale or retail business of INA;
- the acquisition of any real property by a member of INA Group where the consideration for the acquisition exceeds HRK 80 million or where the total amount of such acquisition of real property within a given financial year exceed HRK 200 million;
- the introduction of or any amendment to any employee stock option plan (except plans envisaged in the Law on Privatization of INA);
- the grant of a *"prokura"*;
- changing the accounting policies of INA or of INA Group;
- the cessation of any of the core business activities of INA Group or the reorganization of substantially all of its business; and
- the amending or replacing of the Rules of Procedure of the Management Board or the Rules of Procedure of the Supervisory Board.

The approval of certain actions of the Management Board set out in Article 19.2 of INA's Articles of Association require the affirmative vote of at least four members of the Supervisory Board. These actions include:

- the granting of any security over real property or fixed assets or receivables where the principal amount of the security exceeds HRK 8 million;
- the sale, lease, transfer or other disposition of any real property or other assets of INA which are, in the opinion of the Management Board, significant to INA's business and which, in any event, have a value in excess of HRK 8 million;
- the making of any loan or advance to any Person (a natural person or legal entity, partnership or registered or non-registered association, joint venture, government authority on the local or national level or other organization) where the principal amount is in excess of HRK 8 million;
- the issuing of a guarantee or creation of any security, under which INA assumes a liability in excess of HRK 20 million;
- the incorporation of any company, the cessation of any member of INA Group and the determination, from time to time, of such subsidiary companies which are members of INA Group;
- the acquisition or disposal of any shares or other securities or any interest in any other company or the granting of any option or waiver of any pre-emption right to do the same;
- the acquisition of any real property where the consideration for the acquisition exceeds HRK 8 million;
- the purchase of any insurance for the benefit of any members of the Supervisory Board or the Management Board; and

- entering into any agreement which could result in a liability to INA over a period exceeding four years provided that the value of this agreement exceeds the amount of HRK 8 million.

Management Board

Under INA's Articles of Association, the Management Board consists of seven members.

The members are appointed by the Supervisory Board in accordance with applicable law and INA's Articles of Association.

There are currently seven members of the Management Board, of whom five were nominated by Croatia and two were nominated by MOL, pursuant to the Shareholders' Agreement. See "Principal and Selling Shareholders and Related Party Transactions — Description of the Shareholders' Agreement". The Management Board has a President and may also have a Vice President, both of whom are appointed and dismissed by the Supervisory Board.

Pursuant to the Croatian Companies Act and INA's Articles of Association, the Management Board handles the business operations of INA on a day-to-day basis and is empowered to enter into transactions on INA's behalf, subject to the aforementioned approvals required from the Supervisory Board in relation to certain transactions.

The Management Board must report regularly to the Supervisory Board, particularly in relation to proposed business policies and strategies, profitability, the performance of INA's business activities and on any exceptional matters which may arise from time to time.

Members of the Management Board and its president are appointed and removed by the Supervisory Board for a maximum term of office of four years, although they may be re-appointed during the last year of their term. Management Board members may also be appointed by court decision, under conditions prescribed by the Companies Act.

The Supervisory Board may, in exceptional circumstances such as breach of duty, incapacity or a vote of no confidence by the General Assembly, remove a member of the Management Board before the end of his or her term of office.

In the event of the resignation of a member of the Management Board, the Supervisory Board must be notified.

The Management Board meets once a week. At least four members of the Board must be present to constitute a quorum. The Management Board reaches its decisions by a simple majority of votes and, if a majority cannot be achieved, the president has the deciding vote. The president, however, does not have the right to veto a decision.

Under INA's Articles of Association, INA may be represented by either of two members of the Management Board or by one member of the Management Board and one proxy-holder.

Dividends

Pursuant to the Companies Act, net profits for the financial year realized by INA are to be used primarily for the following purposes:

(1) coverage for losses brought forward from the previous year;

(2) contribution to legal reserves;

(3) contribution to reserves for own shares, if INA has acquired them or has the intention to do so; and

(4) contributions to statutory reserves provided that INA has them.

The Management Board and the Supervisory Board may, after the establishment of the annual financial statements, use the amount of the net profit remaining after the effected allocation for the purposes prescribed by the Companies Act to make contributions to other reserves to be created out of profits; however, those contributions may not exceed one half of the remaining net profit.

If the annual financial statements are determined by the General Assembly to be in accordance with law, the General Assembly may also decide to contribute the net profit remaining, after the effected contributions as defined by the Companies Act, to other reserves that are to be created from appropriation of profits; however, the amount used for that purpose may not exceed one half of the net profit remaining after its use for the purposes prescribed by the Companies Act.

Pursuant to INA's Articles of Association, the General Assembly shall, after approving the annual accounts, decide on the distribution of any profit. By ordinary resolution, the General Assembly may resolve to apply profits to legal reserves, statutory reserves or reserves for its own shares or other reserves, to the members of the

Management Board (or Supervisory Board) as part of their profit-sharing rights, and/or to declare a dividend in accordance with the respective rights of the members.

With the prior written consent of the Supervisory Board, the Management Board is entitled to pay to the shareholders an interim dividend during a financial year based on the net profit forecast if the profit and loss statement for the former year shows a profit. The dividend cannot exceed half of the previous year's profit.

The amount of dividend paid to each shareholder shall be proportionate to the percentage of total nominal share value held, and it may be expressed either as an absolute value per share or as a percentage of total nominal share value. The dividend may be paid in cash and/or in shares of INA. Payment is subject to certain terms and conditions provided in the Shareholders' Agreement and the Law on Privatization of INA. See "Regulation" and "Principal and Selling Shareholders and Related Party Transactions — Description of the Shareholders' Agreement".

A shareholder who is registered in the share register on the day of payment of dividend is entitled to receive payment of the dividend. In the event that an interim dividend is paid pursuant to Article 43.2 of INA's Articles of Association, those shareholders who are registered in the share register as of the date indicated in the resolution of the Management Board will be entitled to share in such dividend. In respect of any final dividend, the record date (being the date on which an entitlement to an annual dividend arises) is customarily the date of the Annual General Meeting which approved such dividend.

Notification Requirements

Announcements by INA regarding its shares and the Company in general are made in *"Narodne Novine"* (the Official Gazette of Croatia), in INA's newsletter, and in at least one nationally circulated newspaper in Croatia.

Squeeze-out

Only the shareholder holding at least 95 per cent. of INA's share capital may request the passage of a General Assembly resolution to squeeze out INA's minority shareholders by giving appropriate compensation to such minority shareholders. Minority shareholders may not challenge the resolution of the General Assembly on the basis of inappropriate compensation, but they may request that a court set the appropriate compensation.

Closing Down

A joint stock company may be wound down, *inter alia*, pursuant to a general assembly resolution, approved by a qualified majority of the shareholders present at the meeting. The Law on Privatization of INA provides for particular terms and conditions related to the winding down of INA. See "Regulation — Croatia — Law on Privatization of INA" and "Risk Factors — Croatia, as a shareholder of INA, retains certain rights under the Law on Privatization of INA".

DESCRIPTION OF THE GLOBAL DEPOSITARY RECEIPTS

Citibank, N.A. has agreed to act as the depositary for the GDRs. The Depositary's principal New York offices are located at 388 Greenwich Street, New York, New York 10013 and its principal London offices are located at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB. In this summary the term "GDRs" is used to refer to the Rule 144A GDRs and to the Regulation S GDRs. GDRs are represented by certificates that are ordinarily known as "Global Depositary Receipt Certificates" or "GDR Certificates". The GDRs being sold by the Joint Bookrunners in the United States are referred to, and will be issued, as Rule 144A GDRs and the GDRs being sold by the Joint Bookrunners outside the United States are referred to, and will be issued, as the Regulation S GDRs. GDRs represent ownership interests in securities, cash or other property on deposit with the Depositary.

The Depositary has appointed Zagrebačka banka d.d. as the custodian for the safekeeping of the securities, cash or other property on deposit (the "Custodian"). The Custodian's principal office is at Paromlinska 2, 10000 Zagreb, Republic of Croatia.

There are two separate deposit agreements, one for the Rule 144A GDRs and one for the Regulation S GDRs, each of which is governed by English law. The relationship between the Depositary and the person making deposits or withdrawals of Shares as it relates to such deposits or withdrawals and the delivery of required certificates, and the transferability of GDRs, shall be governed by New York law. The obligations of INA to the holders of Shares will continue to be governed by the laws of Croatia. Copies of the Deposit Agreements are available for inspection by any holder of the GDRs at the principal offices of the Depositary during business hours, provided that the inspection shall not be for the purpose of communicating with GDR holders in the interests of a business or object other than INA's business or a matter related to the Deposit Agreements or the GDRs.

This is a summary description of the material terms of the GDRs and of GDR holders' material rights as an owner of the GDRs. Please remember that summaries by their nature lack the precision of the information summarized and that the rights and obligations of an owner of GDRs will be determined by reference to the terms of the applicable Deposit Agreement and not by this summary.

One GDR represents the right to receive one Share on deposit with the Custodian. Each GDR will also represent the right to receive cash or any other property received by the Depositary or the Custodian on behalf of the owner of the GDR but that has not been distributed to the owners of GDRs because of legal restrictions or practical considerations. Holders of GDRs are not a party to the Deposit Agreements and, accordingly, have no contractual rights against, or obligations to, INA or the Depositary. However, each deed poll executed by INA in favor of the holders of GDRs provides that, in the event that INA fails to perform the obligations imposed upon it by certain specified provisions of the applicable Deposit Agreement, any holder of GDRs may enforce the relevant provisions of the applicable Deposit Agreement as if it were a party to such Deposit Agreement and was the "Depositary" in respect of that number of Shares to which such holder relates. The Depositary is under no duty to enforce any of the provisions of the Deposit Agreements on behalf of any holder of GDRs or any other person. Holders of GDRs are deemed to have notice of and be bound by all applicable provisions of the Deposit Agreements.

Presently, GDRs may only be held through a brokerage or safekeeping account. As such, holders must rely on the procedures of their brokers or banks to assert their rights as GDR owners. GDR holders should consult with their brokers or banks to determine what those procedures are. "Holder" is assumed to mean the person that owns GDRs and such person's agent (i.e., broker, custodian, bank or trust company) is the holder of the applicable GDR.

No temporary Master GDRs or other temporary documents of title have been or will be issued in connection with this Offering.

Distinctions Between Rule 144A GDRs and Regulation S GDRs

The Rule 144A GDRs and the Regulation S GDRs are similar in many ways but are different primarily on account of the requirements of the U.S. securities laws. The Rule 144A GDRs are "restricted securities" under the U.S. securities laws and as such are subject to limitations on their issuance, transfer and cancellation. The Regulation S GDRs are not per se "restricted securities" under the U.S. securities laws, but certain contractual restrictions will be imposed on the Regulation S GDRs in an effort to prevent the transfer of Regulation S GDRs in violation of the U.S. securities laws.

The differences between the Regulation S GDRs and the Rule 144A GDRs and the restrictions imposed on the Rule 144A GDRs and the Regulation S GDRs cover primarily the following:

- The venue for trading the GDRs:
  - the Regulation S GDRs may be traded only outside the United States; and

— the Rule 144A GDRs may only be traded in PORTAL among "Qualified Institutional Buyers" (as defined in Rule 144A) (as so defined, a "QIB");

- the restrictions on the transfers and withdrawals of the Shares represented by the GDRs. See "— Securities Act and other legends" and "Transfer Restrictions"; and
- the eligibility for book-entry transfer. See "— Settlement and safekeeping".

These distinctions and the requirements of the U.S. securities laws may require INA and the Depositary to treat the Regulation S GDRs and the Rule 144A GDRs differently at any time in the future. There can be no guarantee that holders of Rule 144A GDRs will receive the same entitlements as holders of Regulation S GDRs and vice versa.

Settlement and safekeeping

Rule 144A GDRs

The Depositary and INA will make arrangements with DTC to act as securities depository for the Rule 144A GDRs. All Rule 144A GDRs issued in the Offering will be registered in the name of Cede & Co. (DTC's nominee). One Master Rule 144A GDR Certificate will represent all Rule 144A GDRs that will be issued to and registered in the name of Cede & Co. Transfers of ownership interests in Rule 144A GDRs are to be accomplished by entries made on the books of DTC and participants in DTC acting on behalf of Rule 144A GDR owners. Owners of Rule 144A GDRs will not receive certificates representing their ownership interests in the Rule 144A GDRs, except in the event that a successor securities depository cannot be appointed.

DTC may discontinue providing its services as securities depository with respect to the Rule 144A GDRs at any time by giving reasonable notice to the Depositary. Under such circumstances and in the event a successor securities depository cannot be appointed, individual Rule 144A GDR Certificates representing the applicable number of Rule 144A GDRs held by each owner of Rule 144A GDRs will be printed and delivered to the relevant Rule 144A GDR owners.

Regulation S GDRs

The Depositary and INA will make arrangements with Euroclear and Clearstream to act as securities depositories for the Regulation S GDRs. All Regulation S GDRs issued in the Offering will be registered in the name of Citivic Nominees Limited, as nominee for Citibank N.A. (London Branch), the common depositary for Euroclear and Clearstream. One Master Regulation S GDR Certificate will represent all Regulation S GDRs issued to and registered in the name of Citivic Nominees Limited, as nominee for Citibank N.A. (London Branch). Euroclear and Clearstream will hold the Regulation S GDRs on behalf of their participants (any such participant of Euroclear or Clearstream, a "Participant"), and transfers will be permitted only within Euroclear and Clearstream in accordance with the rules and operating procedures of the relevant system. Transfers of ownership interests in Regulation S GDRs are to be accomplished by entries made on the books of Euroclear and Clearstream and of Participants, acting in each case on behalf of Regulation S GDR owners. Owners of Regulation S GDRs will not receive certificates representing their ownership interests in the Regulation S GDRs, except in the event that use of the Euroclear and Clearstream book-entry system for the Regulation S GDRs is discontinued.

If at any time Euroclear or Clearstream, as the case may be, ceases to make its respective book-entry settlement systems available for the Regulation S GDRs, INA and the Depositary will attempt to make other arrangements for book-entry settlement. If alternative book-entry settlement arrangements cannot be made, the Depositary will make available Regulation S GDRs in physical certificated form.

Subsequent to the Offering, transfers of GDRs, the deposit of Shares into the GDR facilities and the withdrawal of Shares from the GDR facilities will be subject to the restrictions described in the paragraphs below. For information related to restrictions on the Offering itself see "Transfer Restrictions".

Restrictions upon the transfer of GDRs

Rule 144A GDRs	Regulation S GDRs
The Rule 144A GDRs may be resold, pledged or otherwise transferred only:	The Regulation S GDRs may be resold, pledged or otherwise transferred only in accordance with the Securities Act.
(i) outside the U.S. to non-U.S. persons (as defined in Regulation S) in accordance with Regulation S; or	

Rule 144A GDRs

(ii) to a "QIB" in a transaction meeting the requirements of Rule 144A;

or

(iii) pursuant to Rule 144 under the Securities Act, if available;

or

(iv) pursuant to an effective registration statement under the Securities Act.

Regulation S GDRs

Restrictions upon the deposit of Shares

Rule 144A GDRs

Shares will be accepted for deposit under the Rule 144A Deposit Agreement only if delivered by, or on behalf of, a person that is:

(i) not INA or an affiliate of INA or a person acting on behalf of INA or an affiliate of INA; and

(ii) is a "QIB" or a person other than a U.S. person (as defined in Regulation S).

Regulation S GDRs

Shares will be accepted for deposit under the Regulation S Deposit Agreement only if delivered by, or on behalf of, a person that is: (i) not INA or an affiliate of INA or a person acting on behalf of INA or an affiliate of INA; and (ii) is not a U.S. person (as defined in Regulation S).

Restrictions upon the withdrawal of Shares

Rule 144A GDRs

Shares may be withdrawn under the Rule 144A Deposit Agreement only by:

(i) a person outside the United States who will be the beneficial owner of the Shares upon withdrawal;

or

(ii) a QIB who:

(a) has sold the Rule 144A GDRs to another QIB in a transaction meeting the requirements of Rule 144A, or to a person (other than a U.S. person (as defined in Regulation S)) outside the United States in accordance with Regulation S;

or

(b) will be the beneficial owner of the Shares and agrees to observe the transfer restrictions applicable to the Shares so withdrawn.

Regulation S GDRs

Shares may be withdrawn from the Regulation S Deposit Agreement by the holders of Regulation S GDRs.

The registration of transfer of GDRs in particular instances may be refused, or the registration of transfers generally may be suspended, during any period when the transfer books of the Depositary, INA or the registrar are closed, or if any such action is deemed necessary or advisable by INA or the Depositary, in good faith, at any time or from time to time because of any requirement of law, any government or governmental body or commission or any securities exchange on which the GDRs or Shares are listed, or under any provision of the Deposit Agreements or provisions of, or governing, the Shares, or any meeting of INA's shareholders or for any other reason.

The Depositary may close the transfer books with respect to GDRs, at any time or from time to time, when deemed necessary or advisable by it in good faith in connection with the performance of its duties hereunder, or at INA's reasonable request.

Dividends and distributions

GDR holders generally have the right to receive the distributions INA makes on the securities deposited with the Custodian. A holder's receipt of these distributions may be limited, however, by practical considerations and legal limitations. Holders will receive such distributions under the terms of the Deposit Agreements in proportion to the number of GDRs held as of a specified GDR record date, which the Depositary will use reasonable efforts to establish as close as possible to the record date set by INA for the Shares.

Distributions of cash

Whenever INA makes cash distributions in respect of securities on deposit with the Custodian, it will notify the Depositary and deposit the funds with the Custodian. Upon receipt of such notice and of confirmation of the deposit of the requisite funds, the Depositary will arrange for the funds to be converted into U.S. dollars and for the distribution of the U.S. dollars to holders, subject to the laws and regulations of Croatia. The conversion into U.S. dollars will take place only if practicable and if the U.S. dollars are transferable to the United States.

The amounts distributed to holders will be net of the fees, expenses, taxes and governmental charges payable by holders under the terms of the Deposit Agreements. The Depositary will apply the same method for distributing any distribution received upon INA's liquidation or the proceeds of the sale of any property (such as undistributed rights) held by the Custodian in respect of the securities on deposit. It is possible that, in the event of INA's liquidation, the Deposit Agreements will have been terminated prior to the receipt by the Depositary of any distributions arising upon that liquidation. See "— Amendments and Termination".

Distributions of shares

Whenever INA makes a free distribution of shares in respect of the Shares on deposit with the Custodian, it will notify the Depositary and deposit the applicable number of shares with the Custodian.

Upon receipt of confirmation of such deposit from the Custodian, the Depositary will either distribute to holders additional GDRs representing the shares deposited or modify, to the extent permissible by law, the GDR-to-Shares ratio, in which case each GDR held will represent rights and interests in the additional shares so deposited. Only whole new GDRs will be distributed. Fractional entitlements will be sold and the proceeds of such sale will be distributed as in the case of a cash distribution.

The distribution of new GDRs or the modification of the GDR-to-Shares ratio upon a distribution of shares will be made net of the fees, expenses, taxes and governmental charges payable by holders under the terms of the Deposit Agreements. In order to pay such taxes or governmental charges, the Depositary may sell all or a portion of the new shares so distributed.

No such distribution of new GDRs will be made if it would violate U.S. law (i.e. U.S. securities laws) or, if it is not operationally practicable. If the Depositary does not distribute new GDRs as described above, it may sell the shares received and will distribute the proceeds of the sale as in the case of a distribution of cash. The Depositary will hold and/or distribute any unsold balance of such property in accordance with the provisions of the applicable Deposit Agreement.

Distributions of rights

Whenever INA intends to distribute rights to purchase additional shares, it will give timely prior notice to the Depositary and state whether or not it wishes such rights to be made available to GDR holders. If INA wishes such rights to be made available to GDR holders, it will assist the Depositary in determining whether it is lawful and reasonably practicable to distribute rights to purchase additional GDRs to holders.

The Depositary will establish procedures to distribute rights to purchase additional GDRs to holders and to enable such holders to exercise such rights only if the Depositary has received INA's request to make such distribution in a timely manner, the Depositary shall have determined that it is lawful and reasonably practicable to make the rights available to holders of GDRs and INA has provided all of the documentation contemplated in the applicable Deposit Agreement (such as opinions to address the lawfulness of the transaction). GDR holders will have to pay fees, expenses and any taxes and other governmental charges to subscribe for the new GDRs upon the exercise of rights. The Depositary is not required to establish procedures to facilitate the distribution and exercise by holders of rights to purchase new shares other than in the form of GDRs.

The Depositary will not distribute the rights to a holder if:

- INA does not request that the rights be distributed to GDR holders in a timely manner or INA requests that the rights not be distributed to holders;
- INA fails to deliver satisfactory documents to the Depositary;
- the Depositary determines that it is not reasonably practicable to distribute the rights; or

- any rights made available are not exercised and appear to be about to lapse.

The Depositary will sell the rights that are not exercised or not distributed if it determines that such sale is lawful and reasonably practicable in a riskless principal capacity, at such place and upon such terms (including public and private sale) as it may deem practicable. The proceeds of such sale will be distributed to holders as in the case of a cash distribution. If the Depositary is unable to sell the rights, it will allow the rights to lapse.

The Depositary shall not be responsible for (i) any failure to determine whether it may be lawful or practicable to make such rights available to holders, (ii) any foreign exchange exposure or loss incurred in connection with any sale or exercise, or (iii) the content of any materials forwarded to the holders on INA's behalf in connection with the rights distribution. There can be no assurance that holders will be given the opportunity to exercise rights on the same terms and conditions as the holders of Shares or to exercise such rights.

Elective distributions

Whenever INA intends to distribute a dividend payable at the election of shareholders either in cash or in additional shares, it will give timely prior notice thereof to the Depositary and will indicate whether it wishes the elective distribution to be made available to GDR holders. In such case, INA will assist the Depositary in determining whether such distribution is lawful and reasonably practicable.

The Depositary will make the election available to GDR holders only if it has received timely prior notice from INA, if it is lawful and reasonably practicable and if INA has provided all of the documentation contemplated in the applicable Deposit Agreement (such as opinions to address the lawfulness of the transaction). In such case, the Depositary will establish procedures to enable GDR holders to elect to receive either cash or additional GDRs, in each case as described in the Deposit Agreements.

If the election is not made available to GDR holders, holders will, to the extent permitted by law, receive either cash or additional GDRs, depending on what a shareholder in Croatia would receive upon failing to make an election, as more fully described in the relevant Deposit Agreement.

The Depositary is not required to make available to holders a method to receive the elective distribution in the shares rather than in the form of GDRs. There can be no assurance that holders of GDRs or beneficial interests therein will be given the opportunity to receive elective distributions on the same terms and conditions as the holders of the Shares.

Other distributions

Whenever INA intends to distribute property other than cash, shares or rights to purchase additional shares, INA will timely notify the Depositary in advance and will indicate whether it wishes such distribution to be made to GDR holders. If so, it will assist the Depositary in determining whether such distribution to holders is lawful and reasonably practicable.

If the Depositary has received timely prior notice from INA, it is reasonably practicable to distribute such property to GDR holders and if INA has provided all of the documentation contemplated in the Deposit Agreements (such as opinions to address the lawfulness of the transaction), the Depositary will distribute the property to the holders in a manner it deems practicable.

The distribution will be made net of fees, expenses, taxes and governmental charges payable by holders under the terms of the Deposit Agreements. In order to pay such taxes and governmental charges, the Depositary may sell all or a portion of the property received.

The Depositary will not distribute the property to GDR holders and will sell the property if:

- INA does not request that the property be distributed to GDR holders, INA does not make such request in a timely manner or INA asks that the property not be distributed to GDR holders;
- INA fails to deliver satisfactory documents to the Depositary; or
- the Depositary determines that all or a portion of the distribution to GDR holders is not lawful or reasonably practicable.

The proceeds of any such sale will be distributed to holders as in the case of a cash distribution. If the Depositary is unable to sell such property, the Depositary may dispose of such property in any way it deems practicable under the circumstances. The same procedure would be applied to any distribution in a form other than cash received by the Depositary in the event of INA's liquidation. It is possible that, in the event of INA's liquidation, the Deposit Agreements will have been terminated prior to the receipt by the Depositary of any distribution arising upon that liquidation. See "— Amendments and Termination".

Redemption

Whenever INA decides to redeem any of the securities on deposit with the Custodian, it will give timely prior notice to the Depositary. If the Depositary has received timely prior notice from INA, determined that such redemption is practicable and received from INA all of the documentation contemplated in the Deposit Agreements (such as opinions to address the lawfulness of the transaction), the Depositary will mail notice of the redemption to the holders.

The Depositary will instruct the Custodian to surrender the Shares being redeemed against payment of the applicable redemption price. GDR holders will have to pay fees and charges of, and the expenses incurred by, the Depositary and any taxes and governmental charges upon the redemption of GDRs. If less than all GDRs are being redeemed, the GDRs to be redeemed will be selected by lot or on a pro rata basis, as the Depositary may determine.

The Depositary will convert the redemption funds received into U.S. dollars upon the terms of the Deposit Agreements and will establish procedures to enable holders to receive the net proceeds from the redemption upon surrender of their GDRs to the Depositary.

Changes affecting Shares

The Shares held on deposit for holders' GDRs are subject to change from time to time. For example, there may be a change in nominal or par value, a split-up, cancellation, consolidation or reclassification of such Shares or a recapitalization, reorganization, merger, consolidation or sale of assets affecting INA.

If any such change were to occur, any securities which shall be received by the Depositary or the Custodian in exchange for, or in conversion, replacement or otherwise in respect of, such Shares shall, to the extent permitted by law, be treated as new Shares under the Deposit Agreements, and the GDR certificates shall, subject to the terms of the Deposit Agreements and applicable law, evidence the GDRs representing the right to receive such replacement securities. The Depositary in such circumstances may execute and deliver additional GDR certificates to GDR holders, make appropriate adjustments in its records or call for the exchange of existing GDRs for new GDRs. If the Depositary may not lawfully distribute such securities to GDR holders, the Depositary may sell such securities and distribute the proceeds to GDR holders as in the case of a cash distribution. GDR holders will have to pay fees and charges of, and the expenses incurred by, the Depositary and any taxes and governmental charges upon any change affecting the Shares.

The Depositary shall not be responsible for (i) any failure to determine that it is lawful or practicable to make such securities available to holders of GDRs, (ii) any foreign exchange exposure or loss incurred in connection with such a sale, or (iii) any liability to the purchaser of such securities.

Issuance of GDRs upon deposit of Shares

Subject to limitations set forth in the Deposit Agreements and the GDRs, the Depositary may create GDRs on a holder's behalf if such holder or its broker deposits Shares with the Custodian. The Depositary will deliver these GDRs to the person indicated only after the holder pays any applicable issuance fees and any charges and taxes payable for the transfer of the Shares to the Custodian and provides the applicable deposit certification. GDR holders' ability to deposit Shares and receive GDRs may be limited by U.S., English and Croatian legal considerations applicable at the time of deposit.

The Depositary will refuse to accept Shares for deposit whenever it is notified in writing by INA that such deposit would result in any violation of applicable laws. The Depositary will also refuse to accept certain Shares for deposit under the Rule 144A Deposit Agreement if notified in writing by INA that the Shares are listed on a U.S. securities exchange or quoted on a U.S. automated inter-dealer quotation system, unless accompanied by evidence satisfactory to the Depositary that (i) neither the Shares nor the Rule 144A GDRs to be deposited were, when issued, of the same class (within the meaning of Rule 144A(d)(3)(i)) as the securities so listed or quoted and (ii) any Shares presented for deposit are eligible for resale pursuant to Rule 144A. The Depositary shall also, upon receipt of written notice from INA, limit at any time the number of Shares accepted for deposit under the terms of the Deposit Agreements so as to enable INA to comply with ownership restrictions imposed by applicable law or INA's Articles of Association or otherwise imposed by it in its discretion, or otherwise to comply with applicable law.

The issuance of GDRs may be delayed until the Depositary or the Custodian receives confirmation that all required approvals have been given and that the Shares have been duly transferred to the Custodian. The Depositary will only issue GDRs in whole numbers.

When a GDR holder makes a deposit of Shares, it will be responsible for transferring good and valid title to the Depositary, as evidenced by documents satisfactory to the Depositary or the Custodian. As such, it will be deemed to represent and warrant that:

- the Shares are duly authorized, validly issued, fully paid, non-assessable and legally obtained;
- all pre-emptive (and similar) rights, if any, with respect to such Shares have been validly waived or exercised;
- it is duly authorized to deposit the Shares;
- the Shares presented for deposit are free and clear of any lien, encumbrance, security interest, charge, mortgage or adverse claim;
- in the case of a deposit of Shares under the Regulation S Deposit Agreement, the Shares are not, and the Regulation S GDRs issuable upon such deposit will not be, "Restricted Securities" (as defined in the Regulation S Deposit Agreement);
- the Shares presented for deposit have not been stripped of any rights or entitlements; and
- the Shares are not subject to any unfulfilled requirements of Croatian or other applicable law.

If any of the representations or warranties are incorrect in any way, INA and the Depositary may, at the GDR holder's cost and expense, take any and all actions necessary to correct the consequences of the misrepresentations.

When a GDR holder deposits Shares to receive Rule 144A GDRs, it will be required to provide the Depositary with a deposit certification stating, *inter alia*, that:

- it acknowledges that the Shares and the Rule 144A GDRs have not been and will not be registered under the Securities Act or with any securities regulatory authority in any state or other jurisdiction in the United States and that the Shares and the Rule 144A GDRs may not be offered, sold, pledged, or otherwise transferred except in accordance with the restrictions on transfer set forth thereon;
- it is not an affiliate of INA and is not acting on behalf of INA or one of its affiliates;
- it is (i) a QIB or (ii) a person (other than a U.S. person, as defined in Regulation S) outside the United States and acquired or has agreed to acquire and will acquire the Shares to be deposited outside the United States; and
- it agrees, as the owner of the Rule 144A GDRs, to offer, sell, pledge and otherwise transfer the Rule 144A GDRs in accordance with the applicable U.S. state securities laws and only:
  - to a QIB in a transaction meeting the requirements of Rule 144A; or
  - outside the United States to a person (other than a U.S. person, as defined in Regulation S) outside the United States in accordance with Regulation S; or
  - in accordance with Rule 144 under the Securities Act, if available; or
  - pursuant to an effective registration statement under the Securities Act.
- it agrees, as the owner of the Rule 144A GDRs, to offer, sell, pledge and otherwise transfer the Shares represented by the Rule 144A GDRs in accordance with the applicable U.S. state securities laws and only:
  - to a QIB in a transaction meeting the requirements of Rule 144A; or
  - outside the United States to a person outside the United States in accordance with Regulation S; or
  - in accordance with Rule 144 under the Securities Act, if available; or
  - pursuant to an effective registration statement under the Securities Act.

A copy of the form of deposit certification for Rule 144A GDRs is attached to the Rule 144A Deposit Agreement and may be obtained from the Depositary upon request.

When a GDR holder deposits its Shares to receive Regulation S GDRs, it will be required to provide the Depositary with a deposit certification stating, *inter alia*, that:

- it acknowledges that the Shares and the Regulation S GDRs have not been and will not be registered under the Securities Act or with any securities regulatory authority in any state or other jurisdiction in the United States and that the Shares and the Regulation S GDRs may not be offered, sold, pledged, or otherwise transferred except in accordance with the restrictions on transfer set forth thereon;
- it is not an affiliate of INA and is not acting on behalf of INA or one of its affiliates;
- it is, or at the time the Shares are deposited it will be, the beneficial owner of the Shares in the form of GDRs to be issued upon deposit of such Shares;
- it is a person (other than a U.S. person, as defined in Regulation S) outside the United States and acquired or has agreed to acquire and will acquire the Shares to be deposited outside the United States; and
- it is not in the business of buying and selling securities or, if it is in such a business, it did not acquire the Shares presented for deposit from INA or any of its affiliates.

A copy of the form of deposit certification for Regulation S GDRs is attached to the Regulation S Deposit Agreement and may be obtained from the Depositary upon request.

Withdrawal of Shares upon cancellation of GDRs

Subject always to the withdrawal of deposited property being permitted under applicable laws and the terms of the applicable Deposit Agreement, a holder will be entitled to present its GDRs to the Depositary for cancellation and then receive the corresponding number of underlying Shares in the Custodian's account kept with the CDA. The ability to withdraw the Shares may be limited by U.S., English and Croatian law considerations applicable at the time of withdrawal.

In order to withdraw the Shares represented by GDRs, a holder will be required to pay to the Depositary the fees for cancellation of the GDRs and any charges and taxes payable upon the transfer of the Shares being withdrawn and will be required to provide to the Depositary the applicable withdrawal certification. The holder will assume the risk for delivery of all funds and securities upon withdrawal. Once cancelled, the GDRs will not have any rights under the corresponding Deposit Agreement.

If a GDR is held in a particular holder's name, the Depositary may ask such holder to provide proof of identity and genuineness of any signature and such other documents as the Depositary may deem appropriate before it will cancel GDRs. The withdrawal of the Shares represented by GDRs may be delayed until the Depositary receives satisfactory evidence of compliance with all applicable laws and regulations. When GDRs representing fractional securities are presented for cancellation, the Depositary shall be entitled to sell such fractional securities and remit the proceeds of such sale to holders net of fees, expenses, charges and taxes.

When a holder requests the withdrawal of the Shares represented by its Rule 144A GDRs, it will be required to provide the Depositary with a withdrawal certification stating, *inter alia*, that:

(A) it acknowledges that the Shares represented by its Rule 144A GDRs have not been and will not be registered under the Securities Act or with any securities regulatory authority in any state or other jurisdiction in the United States and that the Shares and the Rule 144A GDRs may not be offered, sold, pledged, or otherwise transferred except in accordance with the restrictions on transfer set forth thereon; and

(B) it certifies that:

(1) it is a QIB, acting for its own account or for the account of one or more other QIBs, who is the beneficial owner of the Rule 144A GDRs presented for cancellation; and

either:

- it has sold or agreed to sell the Shares to a person outside the United States in accordance with Regulation S;
- it has sold or agreed to sell the Shares to a QIB in a transaction meeting the requirements of Rule 144A; or
- it will be the beneficial owner of the Shares upon withdrawal; and:

- it (or the person on whose behalf it is acting) will sell the Shares only to another QIB in a transaction meeting the requirements of Rule 144A; to a person outside the United States in accordance with Regulation S; in accordance with Rule 144, if available; or pursuant to an effective registration statement under the Securities Act; and
- it will not deposit the Shares in any depositary receipts facility that is not a "restricted" depositary receipts facility;

OR

(2) it is a person located outside the United States and acquired or agreed to acquire the Shares outside the United States and will be the beneficial owner of the Shares upon withdrawal.

Holders of Regulation S GDRs are not required to provide the Depositary with a withdrawal certification under the Regulation S Deposit Agreement.

Proofs, certificates and other information

GDR holders may be required (i) to provide to the Depositary and the Custodian proof of citizenship or residence, taxpayer status, payment of all applicable taxes or other governmental charges, exchange control approvals, legal or beneficial ownership of GDRs or Shares, compliance with all applicable laws and the terms of the Deposit Agreements, and (ii) to execute certifications and to make representations and warranties and to provide such other information and documentation as the Depositary or the Custodian may deem necessary or proper or as INA may reasonably require by written request to the Depositary consistent with its obligations under the Deposit Agreements. The Depositary may withhold the execution or delivery or registration of transfer or cancellation of any GDR, withhold the distribution or sale of any dividend or distribution of rights or the net proceeds of the sale thereof, and/or in the case of a failure to provide information of legal or beneficial ownership, remove or limit voting rights, or sell or dispose on behalf of a holder or beneficial owner, the Shares represented by the GDRs held by such holder or beneficial owner, until such proof or other information is filed or such certifications are executed, or such representations are made, or such other documentation or information is provided, in each case, to the Depositary's, the Registrar's (as defined in the Deposit Agreements) and INA's reasonable satisfaction.

Holders and/or beneficial owners of GDRs may from time to time be requested by INA or the Depositary to provide information as to the capacity in which they hold, held or owned such GDRs, and as to the identity of any other person then or previously interested in such GDRs and the nature of any such interest. Holders and/or beneficial owners of GDRs shall be required to comply with any such request of INA or the Depositary and will be deemed to have authorized Euroclear or Clearstream to disclose information to INA or the Depositary in connection with any such request.

Voting rights

GDR holders generally have the right under the Deposit Agreements to instruct the Depositary to exercise the voting rights for the Shares represented by their GDRs. The voting rights of holders of Shares are described in "Description of Share Capital and Summary of Articles of Association".

Upon INA's timely written request, and provided no U.S., English or Croatian legal prohibitions (including the rules of the London Stock Exchange or the rules of the ZSE) exist, the Depositary will distribute to GDR holders any notice of shareholders' meetings or solicitation of consents or proxies from holders of Shares received from INA together with information explaining how to instruct the Depositary to exercise the voting rights of the Shares represented by the GDRs.

If the Depositary timely receives voting instructions from a holder of GDRs on time and in the manner specified by the Depositary, it will endeavor — insofar as practicable and permitted under applicable law, the provisions of the applicable Deposit Agreement, INA's Articles of Association and the terms of its Shares — to vote or cause the Custodian to vote the Shares represented by the holder's GDRs in accordance with such voting instructions. The Croatian Companies Act permits a Depositary to split the vote of Shares registered in its name in accordance with the instructions from GDR holders. See "Risk Factors — Investors' voting rights with respect to the Shares represented by the GDRs are limited by the terms of the Deposit Agreements for the GDRs and relevant legal requirements".

Neither the Depositary nor the Custodian will, under any circumstances, exercise any discretion as to voting, vote any number of Shares other than an integral number thereof or vote Shares in a manner that would be inconsistent with any applicable law, and neither the Depositary nor the Custodian will vote, attempt to exercise the right to vote, or in any way make use of, for purposes of establishing a quorum or otherwise, the Shares except pursuant to and in accordance with instructions from holders of the GDRs. If the Depositary timely receives voting instructions from a holder of GDRs which fail to specify the manner in which the Depositary is to vote the Shares represented by such holder's GDRs, the Depositary will deem the holder to have instructed the Depositary not to vote the Shares with respect to the items for which no instruction was given. Securities for which no specific voting instructions are received by the Depositary shall not be voted.

Notwithstanding anything else contained in the Deposit Agreements, the Depositary shall not have any obligation to take any action with respect to any meeting, or solicitation of consents or proxies, of holders of the Shares if the taking of such action would violate U.S., English or Croatian legal prohibitions, including the rules of the London Stock Exchange or the ZSE. INA has agreed in the Deposit Agreements that it shall not establish internal procedures that would prevent the Depositary from complying with, or that are inconsistent with, the terms and conditions of the sections of the Deposit Agreements which deal with voting.

The ability of the Depositary to carry out voting instructions may be limited by practical, legal and regulatory limitations and the terms of the securities on deposit. INA cannot assure GDR holders that they will receive voting materials in time to enable them to return voting instructions to the Depositary in a timely manner. Securities for which no voting instructions have been received from GDR holders will not be voted. See "Risk Factors — Investors' voting rights with respect to the Shares represented by the GDRs are limited by the terms of the Deposit Agreements for the GDRs and relevant legal requirements".

Fees and charges

Service	Fees
Issuance of GDRs*	Up to U.S.$0.05 per GDR issued
Cancellation of GDRs	Up to U.S.$0.05 per GDR cancelled
Distribution of cash dividends or other cash distributions	Up to U.S.$0.05 per GDR held
Distribution of GDRs pursuant to stock dividends, free stock distributions or exercise of rights	Up to U.S.$0.05 per GDR held
Distribution of securities other than GDRs or rights to purchase additional GDRs	Up to U.S.$0.05 per GDR held
Depositary services fee	Up to U.S.$0.05 per GDR held on the applicable record date(s) established by the Depositary
Transfer of GDR Certificates	U.S.$1.50 per GDR Certificate presented for transfer

* No fee shall be incurred or charged in connection with the deposit of Shares in the initial Offering.

GDR holders will also be responsible to pay the following charges incurred by the Depositary:

- taxes (including applicable interest and penalties) and governmental charges;
- fees for the transfer and registration of Shares charged by the share registrar and share transfer agent (i.e. upon deposit and withdrawal of Shares);
- fees and expenses incurred for converting foreign currency into U.S. dollars and compliance with exchange control regulations;
- expenses for cable, telex and fax transmissions and for delivery of securities; and
- fees and expenses incurred in connection with the delivery or servicing of Shares on deposit.

INA has agreed to pay certain other charges and expenses of the Depositary. Fees and charges that holders of GDRs may be required to pay may vary over time and may be changed by INA and by the Depositary. Holders of GDRs will receive prior notice of such changes.

Amendments and termination

INA may agree with the Depositary to modify the Deposit Agreements at any time without its prior consent. INA undertakes to give holders 30 days' prior notice of any modifications that would materially prejudice any of their substantial rights under the Deposit Agreements or that shall impose or increase fees or charges (other than charges in connection with foreign exchange control regulations and taxes and other governmental charges, delivery expenses and other such expenses). INA will not consider to be materially prejudicial to holders' substantial rights, among other things, any amendments or supplements that are reasonably necessary for the GDRs to be settled solely in book-entry form or for the GDRs to be registered under the Securities Act, in each case without imposing or increasing the fees and charges they are required to pay.

GDR holders will be bound by the modifications to the Deposit Agreements if they continue to hold their GDRs after the modifications to the applicable Deposit Agreements become effective.

The Deposit Agreements cannot be amended to prevent GDR holders from withdrawing the Shares represented by GDRs (except as permitted by law). Notwithstanding any such restriction on amendments or supplements to the Deposit Agreements, INA and the Depositary may at any time amend or supplement the Deposit Agreements or the GDR Certificates in order to comply with mandatory provisions of applicable laws, rules or regulations, and such amendments or supplements may become effective before notice thereof is given to holders or within any other period required to comply with such laws, rules or regulations.

INA has the right to direct the Depositary to terminate the Deposit Agreements. Similarly, the Depositary may in certain circumstances on its own initiative terminate the Deposit Agreements. In addition, the Depositary may resign, with such resignation to take effect upon the earlier of 90 days' notice or the acceptance of appointment by a successor depositary, or INA may remove the Depositary, with such removal to take effect upon the later of 90 days' notice or the acceptance of appointment by a successor depositary, and if in either such case no successor depositary shall have accepted appointment by INA, then the Depositary may terminate the Deposit Agreements. In either case, the Depositary must give notice to the holders of the GDRs at least 30 days before termination.

Until the date of termination, the Depositary shall continue to perform all of its obligations under the relevant Deposit Agreement, and the holders of GDRs will be entitled to all of their rights under the relevant Deposit Agreement. If any GDRs shall remain outstanding after the date of termination, the Depositary shall not have any obligation to perform any further acts under the relevant Deposit Agreement, except that the Depositary shall, subject, in each case, to the terms and conditions of the relevant Deposit Agreement, continue to (i) collect dividends and other distributions pertaining to Shares underlying GDRs, (ii) sell securities and other property received in respect of the Shares on deposit, (iii) deliver Shares and any other property on deposit together with any dividends or other distributions received with respect thereto and the net proceeds of the sale of any rights, securities or other property, in exchange for GDRs surrendered to the Depositary (after deducting, or charging, as the case may be, in each case, the fees and charges of, and expenses incurred by, the Depositary, and all applicable taxes or governmental charges for the account of the holders), and (iv) take such actions as may be required under applicable law in connection with its role as Depositary under the relevant Deposit Agreement.

At any time after the date of termination, the Depositary may sell the Shares and other property on deposit then held under the relevant Deposit Agreement and shall after such sale hold un-invested the net proceeds of such sale, together with any other cash then held by it under the relevant Deposit Agreement, in an un-segregated account and without liability for interest, for the pro-rata benefit of the holders whose GDRs have not been surrendered. After making such sale, the Depositary shall be discharged from all obligations under the relevant Deposit Agreement except (i) to account for such net proceeds and other cash (after deducting, or charging, as the case may be, in each case, the fees and charges of, and expenses incurred by, the Depositary, and all applicable taxes or governmental charges for the account of the holders and beneficial owners of the GDRs), and (ii) as may be required at law in connection with the termination of the relevant Deposit Agreement.

Books of Depositary

The Depositary will maintain GDR holders' records at its principal office in New York and, if no book-entry settlement system is available for the relevant GDRs, at its principal office in London as well. Holders may inspect such records at such office during regular business hours but solely for the purpose of communicating with other holders in the interest of business matters relating to the GDRs and the Deposit Agreements.

The Depositary will maintain facilities in New York to record and process the issuance, cancellation, combination, split-up and transfer of GDRs. These facilities may be closed from time to time, to the extent not prohibited by law.

Transmission of notices to shareholders

INA will promptly transmit to the Depositary those communications that it generally makes available to its shareholders. If those communications were not originally in English, INA will translate them. Upon INA's request and at its expense, the Depositary will arrange for the mailing of copies of such communications to all GDR holders and will make a copy of such communications available for inspection at its principal offices in New York and London.

Limitations on obligations and liabilities

The Deposit Agreements limit INA's obligations and the Depositary's obligations to holders of GDRs. Please note the following:

- INA and the Depositary are obligated only to take the actions specifically stated in the Deposit Agreements without negligence or bad faith.
- The Depositary disclaims any liability for any failure to carry out voting instructions, for any manner in which a vote is cast or for the effect of any vote, provided it acts in good faith and in accordance with the terms of the Deposit Agreements.
- The Depositary disclaims any liability for any failure to determine the lawfulness or practicality of any action, for the content of any document forwarded to holders of GDRs on behalf of INA or for the accuracy of any translation of such a document, for the investment risks associated with investing in Shares, for the validity or worth of the Shares, for any tax consequences that result from the ownership of GDRs, for the credit-worthiness of any third party, for allowing any rights to lapse under the terms of the Deposit Agreements, for the timeliness of any of notice of INA or for INA's failure to give notice.
- INA and the Depositary will not be obligated to perform any act that is inconsistent with the terms of the Deposit Agreements.
- INA and the Depositary disclaim any liability if INA or the Depositary is prevented or forbidden from acting on account of any law or regulation, any provision of INA's Articles of Association, any provision of any securities on deposit or by reason of any act of God, terrorism or war or other circumstances beyond the control of INA or the Depositary.
- INA and the Depositary disclaim any liability by reason of any exercise of, or failure to exercise, any discretion provided for in the Deposit Agreements or in INA's Articles of Association or in any provisions of securities on deposit.
- INA and the Depositary further disclaim any liability for any action or inaction in reliance on the advice or information received from legal counsel, accountants, any person presenting Shares for deposit, any holder of GDRs or authorized representatives thereof, or any other person believed by either of INA or the Depositary in good faith to be competent to give such advice or information.
- INA and the Depositary also disclaim liability for the inability by a holder of GDRs to benefit from any distribution, offering, right or other benefit which is made available to holders of Shares but is not, under the terms of the Deposit Agreements, made available to holders of GDRs.
- INA and the Depositary may rely without any liability upon any written notice, request or other document believed to be genuine and to have been signed or presented by the proper parties.
- INA and the Depositary also disclaim any liability for consequential or punitive damages for any breach of the terms of the applicable Deposit Agreement.

Pre-release transactions

The Depositary may, in certain circumstances, issue GDRs before receiving a deposit of Shares or release Shares before receiving GDRs for cancellation. These transactions are commonly referred to as "pre-release transactions". The Deposit Agreements limit the aggregate size of pre-release transactions and impose a number of conditions on such transactions (i.e., the need to receive collateral, the type of collateral required, the representations required from brokers, etc.). The Depositary may retain the compensation received from the pre-release transactions.

Taxes

GDR holders will be responsible for the taxes and other governmental charges payable on the GDRs and the securities represented by the GDRs. INA, the Depositary and the Custodian may deduct from any distribution the taxes and governmental charges payable by holders of GDRs and may sell any and all Shares or other property on deposit to pay the taxes and governmental charges payable by holders of GDRs. GDR holders will be liable for any deficiency if the sale proceeds do not cover the taxes that are due.

The Depositary may refuse to issue GDRs, to deliver, transfer, split and combine GDRs or to release securities on deposit until all taxes and charges are paid by the applicable holder. The Depositary and the Custodian are not required to take reasonable administrative actions to obtain tax refunds and reduced tax withholding for any distributions on a holder's behalf. However, holders may be required to provide to the Depositary and to the Custodian proof of taxpayer status and residence and such other information as the Depositary and the Custodian may require to fulfill legal obligations.

The Depositary is under no obligation to provide GDR holders with any information about INA's tax status. The Depositary shall not incur any liability for any tax consequences that may be incurred by any GDR holders on account of their ownership of the GDRs, including without limitation by virtue of INA's tax status.

By purchasing GDRs, each holder agrees to indemnify the Depositary, INA, the Custodian and any of their agents, officers, employees and affiliates for, and to hold each of them harmless from, any claims with respect to taxes (including applicable interest and penalties thereon) arising from any tax benefit obtained for GDR holders.

Foreign currency conversion

The Depositary will arrange for the conversion into U.S. dollars of all foreign currency received if such conversion is practicable, and it will distribute the U.S. dollars in accordance with the terms of the Deposit Agreements. GDR holders will have to pay fees and expenses incurred in converting foreign currency, such as fees and expenses incurred in complying with currency exchange controls and other governmental requirements.

The Depositary may, but is not required to, make any filing with any governmental authority required to obtain an approval or license necessary for any conversion of any foreign currency into or distribution of U.S. dollar funds. If the conversion of foreign currency is not practicable or lawful, or if any required approvals are denied or, in the reasonable opinion of the Depositary, not obtainable at a reasonable cost or within a reasonable period, the Depositary may take the following actions in its discretion:

- Convert the foreign currency to the extent practicable and lawful and distribute the U.S. dollars to the holders for whom the conversion and distribution is lawful and practicable;
- Distribute the foreign currency to holders for whom the distribution is lawful and practicable; and
- Hold the foreign currency (without liability for interest) for the applicable holders.

The Depositary will not invest the currency it cannot convert and it will not be liable for any interest thereon. If exchange rates fluctuate during a time when the Depositary cannot convert the foreign currency received, holders may lose some or all of the value of the distribution.

Governing law

Although English law has been chosen to govern the construction and interpretation of the Deposit Agreements and the GDRs, except that (i) the relationship between the Depositary and the persons making deposits or withdrawals of Shares as it relates to such deposits or withdrawals and the delivery of required certifications, and (ii) the transferability of GDRs, shall be governed by New York law, the rights of holders of the Shares and other deposited securities and INA's obligations and duties in respect of such holders shall be governed by the laws of Croatia (or such other jurisdiction's laws as may govern the deposited securities).

Under the terms of the Deposit Agreements, owners of GDRs agree that any dispute, controversy or cause of action against INA and/or the Depositary arising out of the GDRs, the Deposit Agreements, the Shares or other deposited securities will be referred to and resolved by the courts in England and New York State or any federal court located in the Borough of Manhattan, New York City.

Securities Act and other legends

Legends for Rule 144A GDRs

NEITHER THIS RULE 144A GDR CERTIFICATE, NOR THE RULE 144A GDRs EVIDENCED HEREBY, NOR THE SHARES REPRESENTED THEREBY HAVE BEEN OR WILL BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "U.S. SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE OFFER, SALE, PLEDGE OR OTHER TRANSFER OF EACH OF THIS RULE 144A GDR CERTIFICATE, THE RULE 144A GDRs EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY IS SUBJECT TO CERTAIN CONDITIONS AND RESTRICTIONS. THE HOLDERS AND THE BENEFICIAL OWNERS HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING THIS RULE 144A GDR CERTIFICATE AND THE RULE 144A GDRs EVIDENCED HEREBY, ACKNOWLEDGE THAT SUCH RULE 144A GDR CERTIFICATE, THE RULE 144A GDRs EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT AND AGREE FOR THE BENEFIT OF

THE COMPANY AND THE DEPOSITARY THAT (X) THIS RULE 144A GDR CERTIFICATE AND THE RULE 144A GDRs EVIDENCED HEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE U.S. SECURITIES ACT AND APPLICABLE LAWS OF THE STATES, TERRITORIES AND POSSESSIONS OF THE UNITED STATES GOVERNING THE OFFER AND SALE OF SECURITIES AND ONLY (1) IN AN OFFSHORE TRANSACTION TO A PERSON OTHER THAN A U.S. PERSON (AS DEFINED IN REGULATION S UNDER THE U.S. SECURITIES ACT) IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT, (2) TO A PERSON WHOM THE HOLDER AND THE BENEFICIAL OWNER REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE U.S. SECURITIES ACT ("RULE 144A") PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT PROVIDED BY RULE 144 UNDER THE U.S. SECURITIES ACT (IF AVAILABLE), OR (4) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE U.S. SECURITIES ACT, AND (Y) THE SHARES REPRESENTED BY THE RULE 144A GDRs MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE U.S. SECURITIES ACT AND APPLICABLE LAWS OF THE STATES, TERRITORIES AND POSSESSIONS OF THE UNITED STATES GOVERNING THE OFFER AND SALE OF SECURITIES AND ONLY (1) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT, (2) TO A PERSON WHOM THE HOLDER AND THE BENEFICIAL OWNER REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT PROVIDED BY RULE 144 UNDER THE U.S. SECURITIES ACT (IF AVAILABLE), OR (4) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE U.S. SECURITIES ACT.

THE BENEFICIAL OWNER OF SHARES RECEIVED UPON CANCELLATION OF ANY RULE 144A GDR MAY NOT DEPOSIT OR CAUSE TO BE DEPOSITED SUCH SHARES INTO ANY DEPOSITARY RECEIPT FACILITY ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK, OTHER THAN A RULE 144A RESTRICTED DEPOSITARY RECEIPT FACILITY, SO LONG AS SUCH SHARES ARE "RESTRICTED SECURITIES" WITHIN THE MEANING OF RULE 144(a)(3) UNDER THE U.S. SECURITIES ACT. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE U.S. SECURITIES ACT FOR RESALE OF THE SHARES OR THE RULE 144A GDRs.

EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS RULE 144A GDR CERTIFICATE OR A BENEFICIAL INTEREST IN THE RULE 144A GDRs EVIDENCED HEREBY, AS THE CASE MAY BE, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING RESTRICTIONS.

IT IS EXPECTED THAT THE SHARES DEPOSITED HEREUNDER WILL BE REGISTERED ON THE SHARE REGISTER MAINTAINED BY THE CENTRAL DEPOSITORY AGENCY, THE SHARE REGISTRAR OF INA, IN THE NAME OF CITIBANK, N.A., AS DEPOSITARY, OR ITS NOMINEE, OR OF THE CUSTODIAN, OR ITS NOMINEE.

Legends for Regulation S GDRs

NEITHER THIS REGULATION S GDR CERTIFICATE, NOR THE REGULATION S GDRs EVIDENCED HEREBY, NOR THE SHARES REPRESENTED THEREBY HAVE BEEN OR WILL BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "U.S. SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE OFFER, SALE, PLEDGE OR OTHER TRANSFER OF THIS REGULATION S GDR CERTIFICATE, THE REGULATION S GDRs EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY IS EACH SUBJECT TO CERTAIN CONDITIONS AND RESTRICTIONS. THE HOLDERS AND THE BENEFICIAL OWNERS HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING THIS REGULATION S GDR CERTIFICATE AND THE REGULATION S GDRs EVIDENCED HEREBY, ACKNOWLEDGE THAT SUCH REGULATION S GDR CERTIFICATE, THE REGULATION S GDRs EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT AND AGREE FOR THE BENEFIT OF THE COMPANY AND THE DEPOSITARY THAT THIS REGULATION S GDR CERTIFICATE, THE REGULATION S GDRs EVIDENCED HEREBY AND THE

SHARES REPRESENTED THEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE U.S. SECURITIES ACT AND APPLICABLE LAWS OF THE STATES, TERRITORIES AND POSSESSIONS OF THE UNITED STATES GOVERNING THE OFFER AND SALE OF SECURITIES.

EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS REGULATION S GDR CERTIFICATE OR A BENEFICIAL INTEREST IN THE REGULATION S GDRs EVIDENCED HEREBY, AS THE CASE MAY BE, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING RESTRICTIONS.

IT IS EXPECTED THAT THE SHARES DEPOSITED HEREUNDER WILL BE REGISTERED ON THE SHARE REGISTER MAINTAINED BY THE CENTRAL DEPOSITORY AGENCY, THE SHARE REGISTRAR OF INA, IN THE NAME OF CITIBANK, N.A., AS DEPOSITARY, OR ITS NOMINEE, OR OF THE CUSTODIAN, OR ITS NOMINEE.

THE ZAGREB STOCK EXCHANGE

Introduction

The stock exchanges of Croatia must be incorporated as joint stock companies and must obtain a license from HANFA. A stock exchange is authorized to regulate its organization, operations and conditions for listing and stock exchange trading by its Articles of Association and Rules, subject to approval by HANFA.

The ZSE was founded in 1991 as a joint stock company, continuing the tradition of the Zagreb Commodities and Valuables Exchange that operated between 1918 and 1946. The official ZSE web site is www.zse.hr.

Brokerage companies and Croatian banks that are members of the stock exchanges trade in their own name and for their own account or by order of their customers.

HANFA monitors trading on the ZSE, particularly compliance with rules and regulations regarding insider-trading activity, fairness in trading, and other market-related matters.

The Markets of the Zagreb Stock Exchange

The ZSE adopted its Rules (the "ZSE Rules") in 2003. The Rules regulate the admission and termination of membership, members' rights and responsibilities, the criteria and procedure for listing and admission to trading, the requirements for issuers listing their securities on the exchange, and the securities trading processes.

The ZSE Rules provide that the following securities may be listed under specified conditions: (i) joint stock company shares, (ii) ZIF (closed-end investment funds) units, (iii) bonds, (iv) short-term securities, (v) investment instruments and (vi) convertible securities (such as depositary receipts).

Depending on the requirements of issuer transparency and size, securities may be listed and traded on one of five different markets. The first is the Official Market ("ST"), which is the highest-ranking market and comprises securities of issuers that agree to fulfill more stringent reporting, quality and disclosure requirements. The second market is the Regular Market ("RT"), which was formed for securities of companies that do not meet the listing requirements for the Official Market. The third market is the Public joint-stock company tier ("TJDD"), which is for Public joint-stock companies as defined in the Securities Market Act. The fourth is the Parallel Securities Market ("UT"), which was formed for securities admitted to trading at the suggestion of a ZSE member or at the ZSE's initiative. The final market is the Rights Market *(Tržište prava)*, which was formed for listings of so-called rights to an allocation of certain shares or stakes from the Croatian Privatization Fund portfolio.

The markets are divided into segments, in accordance with the requirements of transparency with respect to the issuer and the type of security. The following segments may exist within each of ST, RT and UT markets: (i) the Joint-stock company segment, (ii) the ZIF segment, (closed-ended investment fund), (iii) the Bond segment, (iv) the Short-term securities segment, and (v) the Other securities segment.

To list shares on the ST, a company has to have paid-in capital or an expected market capitalization of at least HRK 100 million. Listing shares on the RT requires a minimum paid-in capital of at least HRK 20 million, or less, provided that the company's expected market capitalization exceeds HRK 10 million, it has financial reports for at least the last two financial years, it has no fewer than 50 shareholders and no less than 15 per cent. of its shares are in free float.

There are currently no derivatives markets in Croatia. All markets are exchange markets, conducted fully electronically using a continuous order driven system, both for quotation and reporting, and for trade execution. The number of publicly traded issues of equity and debt securities has increased significantly in the past few years. On 30 June 2006, 264 publicly traded issues were listed on the ZSE, which consisted of 199 shares, 48 bonds, 15 commercial papers and two rights.

Trading and Settlement

Shares listed on the ZSE are quoted in Kuna on a per share basis. In 1994, the ZSE launched an electronic trading system, which allowed brokers to be connected using telecommunications and to trade on the Exchange from their offices. Trading on the ZSE is conducted Monday through Friday from 10:00 a.m. to 4:00 p.m. and must be executed through ZSE members.

Trading in securities is done in real time through the electronic trading system MOST. All prices on the ZSE can be monitored through the Internet using the MOST Information Channel ("MOSTich"). MOSTich is the system for distribution of information from the ZSE in real time and is intended for investors, fund managers, analysts and others who rely on quick and reliable information of current conditions at the ZSE.

The SDA, which performs clearing and settlement transactions, performs clearing and settlement on the third day after execution of the transaction (T+3).

The Croatian Traded Index

CROBEX© is the official share index of the Zagreb Stock Exchange. It has been published since 1 September 1997, and its base value is set on 1000.

CROBEX is an index weighted by market capitalization, whereby the weight of any individual share is limited to 20 per cent. of the index capitalization. If any share comprising CROBEX© was not traded on a given day, the previous day's close price is used.

CROBEX is calculated continuously during the trading session. In order to be included in the index, a share has to meet the following criteria:

- it has been traded on more than 75 per cent. of the available trading days in the six-month observation period or is among the shares ranked in the top 25 per cent. of shares ranked according to the number of trading days;
- it has been listed on the ZSE for at least six months; and
- it has a market capitalization greater than the median market capitalization of the shares.

Revisions of the index are carried out twice a year by the Index Committee after the close of trading on each third Friday in March and September. The revisions are applicable as from the next trading day. In order to remain in the index, shares have to be traded on at least 50 per cent. of the trading days in the six-month observation period (the period between the two revisions of the index) or have to be ranked among the top 25 per cent. of the shares ranked according to the number of trading days in the six-month observation period. If shares do not fulfill that requirement in the first revision, their weight in the index will be decreased by 50 per cent. in the next period. Any share which does not fulfill this requirement in two successive revision periods will be excluded from the index. In the event of unpredictable events which can influence the accuracy or credibility of CROBEX © index in the period between two regular revisions, the Index Committee can review CROBEX © index between two regular revisions and exclude a s share from the index. Unpredictable events include:

- corporate events, such as bankruptcy or liquidation of a company, increases or reductions in equity capital, takeovers, amalgamations or mergers;
- delisting;
- the long-term suspension of trading in a specific security; or
- other circumstances related to the issuer or the security which could influence the accuracy or credibility of CROBEX.

As of the date of this prospectus, shares of 25 companies were included in CROBEX.

Trading Volume

Despite the strong development of capital markets in Croatia in the past few years, the country is still behind the more developed markets of Western Europe in terms of trading volume. As a result of substantially less trading volume compared to certain other Western European stock exchanges, securities traded on the ZSE may be less liquid and more volatile than securities traded in other (more developed) markets. The growth of institutional investors and the Croatian market in recent years has had a positive effect on volume and turnover of securities.

In the first six months of 2006, total turnover on the ZSE amounted to HRK 25.6 billion, which represents a growth of 27.5 per cent. compared to the first six months of 2005. The aggregate turnover of shares traded on the ZSE was HRK 5.8 billion, i.e. 22.7 per cent. of total turnover. During the first six months of 2006, 112 of the total shares listed were traded on the ZSE. During that same period, market capitalization reached HRK 147.3 billion, recording a growth of 28.0 per cent. compared to the same period in 2005. Shares recorded market capitalization of HRK 110.8 billion, i.e. 75.2 per cent. of total market capitalization on the ZSE.

Notification Requirements

A company whose shares or bonds are listed on the ST is required, under the Securities Market Act, to inform the public about all decisions and circumstances representing material facts, i.e. all facts that may influence the price of the securities, unless such information would hinder its legitimate interests, in which case it must inform HANFA and obtain an exemption from the publication obligation for a maximum of three months.

In addition, pursuant to the ZSE Rules, a company that has securities listed on the ZSE is required to disclose all material facts to the public by means of periodic notifications (which must be disclosed at regular intervals) and ad hoc notifications (which must be disclosed as soon as any material facts come to its attention). When disclosing material facts, the company is required to act in a way that does not favor any particular person or segment of the public. All information disclosed to analysts, representatives of institutional investors, etc., must simultaneously be made available to the public and the ZSE. If a security listed on the ZSE is also listed on an exchange outside Croatia that requires the disclosure of certain information, the same information must be disclosed in Croatia and be made available to the ZSE.

A company that has shares or bonds listed in the ST is required to regularly disclose audited annual financial reports, semi-annual financial reports and quarterly financial reports. These reports must be compiled in accordance with International Accounting Standards and published within the timeframe set by the regulations of the country in which the company is officially registered. Unaudited annual financial reports must be disclosed immediately upon their completion and before the audited financial reports. In certain circumstances, the ZSE can, on the basis of a reasonable written request, relieve a company of its obligation to disclose unaudited reports. If a company prepares consolidated financial reports, they must be included in the annual report and should provide the following:

- the list of companies in the consolidation;
- the auditor's opinion on consolidated accounts; and
- the consolidated balance sheet, the profit and loss account and the cash flow statement (tabulated in a manner that allows for a comparison with the previous reporting periods).

A company must also notify the ZSE of:

- all press conferences that are related to its business, significant personnel changes, business plans, financial situation and other material facts;
- meetings with financial analysts;
- meetings with representatives of institutional investors or other significant investors; and
- organized presentations to significant and potential investors.

If previously announced conferences and meetings of the types listed above are to be held during the course of trading, the ZSE can suspend trading in securities of the relevant issuer while the conference or meeting is held. The suspension can last until that day's close of trading at the latest.

The company must also make ad hoc notifications to the ZSE and the public about:

- the date of its general shareholders' meetings and decisions relating to dividends and the distribution of profits; and
- the date of supervisory and management board meetings (at least five working days before a meeting is held) whenever these boards are scheduled to decide on annual, semi-annual or quarterly financial reports or on dividend payment.

The company shall notify the public and the ZSE of:

- all factual changes in the prospectus that was published at the time of issuance of the listed securities, listing notification or other notifications issued after the publication of the prospectus and the listing notification;
- any material facts relating to the company's business or other developments (e.g. external influences, changes in business environment, etc.) that may have an impact on the company's legal and financial position, including the termination of business; changes in the management board, higher management and supervisory board members; changes of ownership structure; significant investment and disinvestment; signing of major contracts; or material changes of business conditions in the market;
- any material fact which could influence the company's capital structure, including an intention to increase or decrease the share capital of a company that it is a majority owner of; major changes relating to the company's financial sources; the issuance of new securities; or changes of rights included in the listed securities;

- any acquisition or disposal of the company's securities by members of the supervisory or management boards, employees with access to inside information or persons related to them;
- changes expected in the company's status, including the takeover of another company, takeover by another company and transformation of the company into another type of company; and
- other material facts or development with respect to its business activities that may have an impact on the price of issued securities or the company's ability to fulfill the obligations arising from the issued securities.

The ZSE may also request that the company confirm or deny any rumors or news which relate to the company which do not arise from information previously delivered to the ZSE and the public, but which influence or may influence the price of the company's securities. Additionally, the ZSE can request that the company publish certain information if it considers such information necessary in order to keep the investment public thoroughly informed.

Pursuant to the Securities Market Act, a natural or legal person who, directly or indirectly, acquires or disposes of shares in a public joint stock company must notify HANFA and the listed company in writing within 15 days if, as a result of any such acquisition or disposal, that person's proportion of the votes at a General Assembly of the Company would rise above or fall below 10 per cent., 25 per cent., 50 per cent. or 75 per cent., as applicable.

Takeover Rules

The Act on the Takeover of Joint Stock Companies (the "Takeover Act") (Official Gazette 84/02, 87/02, 120/02, 140/05) determines the conditions for announcing a takeover bid, the takeover procedure, the rights and obligations of takeover participants, and the supervision of takeover procedures. The Takeover Act requires a person who has acquired, together with any already held shares, more than 25 per cent. of the shares with voting rights in a public joint stock company to place a mandatory takeover bid for all of the shares in that company. The mandatory takeover bid must be placed within 30 days from the occurrence of the event that triggered it.

The takeover bid must be approved by HANFA and must be published in the Official Gazette and at least one daily newspaper distributed throughout Croatia. The takeover bid is valid for 30 days from the date of publication, but in the case of any concurrent takeover bids, this term may be extended for the entire period of validity of those concurrent takeover bids.

Before submitting the takeover bid to HANFA for approval, the offeror is required to enter into a share depositing agreement with the depositary. The depositary for all non-materialized shares is the CDA. For materialized shares, the depositary can be a bank. The shareholders willing to accept the takeover bid deposit their shares into the deposit account set up by the bank or the CDA. The offeror is required to deposit, in an escrow account opened with a bank, the amount of money sufficient to pay for all of the shares covered by the takeover bid (or obtain, for the same amount, an unconditional bank guarantee or enter into a loan agreement with a bank in favor of the shareholders that shall deposit their shares). A takeover report must be delivered to HANFA, the target and every stock exchange on which the target shares are traded within seven days following the expiry of the takeover bid and the deadline for payment for the shares.

EXCHANGE CONTROL REGULATION

Exchange Control Regulation

Croatia maintains certain exchange controls under foreign-exchange-related acts and regulations, and particularly under the Foreign Exchange Act, passed in 2003 and amended in 2005, with further amendments expected by the end of 2006 in accordance with the plan to align Croatian legislation with the Acquis in 2006. The Act governs (i) transactions between residents and non-residents in foreign means of payment (foreign exchange, foreign cash, checks, and other monetary instruments denominated and payable in foreign currency) and in Kuna (current and capital transactions and their execution by means of payments, collection or transfers), (ii) transactions between residents in foreign means of payment and (iii) unilateral transfers of assets from and into Croatia that are not considered to be transactions between residents and non-residents.

Exchange control is primarily exercised through the Croatian National Bank ("CNB") under the Foreign Exchange Act and under the Act on the Croatian National Bank, passed in 2001, which is, *inter alia*, authorized to establish monetary and foreign exchange policies and to adopt decisions regulating foreign exchange transactions, as well as to impose restrictions and reporting requirements for direct investments and other capital transactions, such as credit and deposit transactions. Pursuant to the Foreign Exchange Act, provided that capital movements cause or threaten to cause serious difficulties in the implementation of monetary or foreign exchange policies, the CNB is also authorized to issue a special decision prescribing safety measures. These measures may include restrictions on transfers of securities, foreign cash and gold into and from Croatia and restrictions on securities and gold transactions between residents and non-residents for a maximum period of six months or longer with the approval of the Croatian Parliament.

With respect to reporting requirements, residents are required to report data to the CNB on external operations and transactions in the manner and in accordance with the terms set out in the CNB's decisions, and to report, if requested by the Foreign Exchange Inspectorate of the Ministry of Finance, the data on actual owners of offshore non-residents. Further reporting requirements for certain transactions on money markets are also imposed by the Act on Money Laundering Prevention adopted in 1997, with subsequent amendments made in 2001 and 2003.

Under the Foreign Exchange Act, direct investments in Croatia by non-residents are unrestricted, unless otherwise provided, and non-residents may only subscribe, pay in, purchase or sell securities in Croatia in accordance with regulations governing securities transactions in Croatia, and in accordance with the CNB's decisions. The CNB is authorized to prescribe that non-resident custody and cash accounts for payments and collections concerning the purchase and sale of securities in Croatia are opened in and managed by banks. Specifically, the CNB may prescribe that any non-resident's right to acquire securities is subject to its agreement to maintain a custody account which requires the non-resident not to dispose of or pledge the acquired securities with residents within a period of one year from the registration of title, and to accept that the custodian bank registers such prohibition on disposal in the share register, whereby non-residents' rights to dividends or interest payments shall not be challenged.

Free repatriation of profit and invested capital are guaranteed to foreign investors under the Constitution of Croatia. Payments and transfers based on capital transactions are unrestricted, provided the transaction is concluded and notified in accordance with the Foreign Exchange Act and provided that all tax obligations arising from any such transaction in Croatia have been met. Transfers of profit abroad through direct investments made by non-residents as well as transfers abroad of the balance of assets in liquidation or of a bankrupt estate are unrestricted, provided that the profit tax related to the transferred amount has been paid in Croatia or provided that the tax and other legally prescribed obligations relating to the liquidated or bankrupt business have been met in Croatia.

Foreign exchange transactions in foreign means of payment between residents and between residents and non-residents are allowed under the Foreign Exchange Act only in cases prescribed by law or decisions of the CNB. Under the CNB's Decision on Payments and Collections in Foreign Means of Payment in the Country, such transactions between residents and non-residents in connection with capital transactions are allowed, except in the following cases: (i) purchase and sale of real estate in Croatia and shares in companies with registered office in Croatia; (ii) purchase and sale of shares in investment companies established in accordance with Croatian laws; and (iii) purchase and sale of securities listed or issued in Croatia, irrespective of their denomination in foreign currency or Kuna, except securities issued in Croatia that are listed abroad.

TAXATION

Croatian Taxation

The following is a brief summary of certain tax consequences of the acquisition, ownership, and disposition of the Shares based on Croatian tax law. This description does not purport to address all aspects of Croatian taxation that may be relevant to holders of Shares or GDRs. This summary is based upon Croatian tax law and upon provisions of double taxation treaties entered into between Croatia and other countries, both applicable as of the date of this prospectus. The laws and treaties and their interpretation by the tax authorities and courts may change and such changes may have retroactive effect.

Potential purchasers of the Shares should consult their tax advisors to receive information about the Croatian tax consequences of the acquisition, ownership and disposition, in a sale or as a gift, of the Shares, including the procedure for obtaining a possible refund of Croatian withholding tax paid. Only tax advisors are in a position to adequately take into account any special tax situation of the individual holder of Shares or GDRs.

Exceptions to the tax regime described in this section "Croatian Taxation" may apply to certain holders of Shares or GDRs which are not discussed herein.

An individual resident in Croatia is subject to income tax (*porez na dohodak*) on his domestic and foreign income (principle of worldwide income). An individual is treated as resident if he has either a permanent domicile available in Croatia or if he has his habitual abode there or if he is employed in the state service of Croatia and receives salary on that basis. A non-resident individual is a person who does not have either a permanent domicile available in Croatia or his habitual abode there, and who earns taxable income in Croatia. A non-resident individual is subject to income tax only on his income from certain Croatian sources (principle of domestic income).

Companies and other legal and natural entities resident in Croatia who perform economic activities independently, permanently and for the purpose of gaining profit, income, turnover or other economic benefits are subject to profit tax *(porez na dobit)* on their domestic and foreign income. Residents are legal and natural entities whose registered office is registered with a court or other registry in Croatia or whose place of actual management and supervision of business is in Croatia. Residents are also natural persons with permanent domicile or habitual abode in Croatia and whose activities are registered with a registry. Other persons are regarded as non-residents. Non-residents are liable for profit tax only on profit earned in Croatia.

Croatian taxation may be restricted or reduced by double-taxation treaties ("tax treaties").

Dividends

Dividends distributed by a Croatian joint stock company to its shareholders are not subject to any Croatian taxation.

Capital gains

Any capital gain realized by the holder of Shares or GDRs on a disposal of Shares or GDRs does not give rise to a liability for taxation.

Inheritance and gift tax

Inheritance and gift tax is levied on real estate, cash, cash claims and securities and on movables if their individual market value exceeds 50,000.00 Kuna on the date of determination of the tax obligation, as defined in the Law on Financing of Local and Regional Self-government *(Zakon o financiranju jedinica lokalne i područne (regionalne) samouprave)*. The inheritance and gift tax is not paid if the value added tax is paid on the inherited or given movables. The tax rate is 5 per cent.. There are various tax exemptions depending on the relationship of the beneficiary to the deceased or the donor and to the status of the beneficiary or the purpose of the gift or donation.

Taxpayers of the inheritance and gift tax are legal and natural entities who inherit or receive gifts or acquire assets on other bases without consideration in Croatia.

Sales or transfer tax

As a matter of Croatian law, the sale, transfer or other disposition of Shares or GDRs is not subject to Croatian taxation, whether such sale, transfer or other disposition is made by a resident or non-resident holder of Shares or GDRs.

Tax treaties

Croatia is, at present, a party to 39 tax treaties including most European countries: Albania, Austria, Belarus, Belgium, Bosnia and Herzegovina, Bulgaria, Canada, Chile, China, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Macedonia, Malta, Mauritius, Montenegro, Netherlands, Norway, Poland, Romania, Russian Federation, San Marino, Serbia, Slovakia, Slovenia, Republic of South Africa, Sweden, Switzerland, Turkey, Ukraine and United Kingdom.

United States Federal Income Tax Considerations

The following discussion is a general summary based on current law of certain US federal income tax considerations relevant to the purchase, ownership and disposition of the Shares and GDRs. The discussion is not a complete description of all tax considerations that may be relevant to investors and does not consider an investor's particular circumstances. It applies to US Holders that purchase Shares or GDRs in the Offering, hold the Shares or GDRs as capital assets and use the US dollar as functional currency. It does not address the tax treatment of investors subject to special rules, such as banks, tax-exempt entities, insurance companies, dealers, traders in securities that elect to mark to market treatment, investors liable for alternative minimum tax, US expatriates, investors that directly, indirectly or constructively own 10 per cent. or more of the Shares (including Shares represented by GDRs) or investors that hold Shares or GDRs as part of a straddle, hedging, conversion or other integrated transaction.

The Company believes, and this discussion assumes, that the Company is not a passive foreign investment company ("PFIC") for US federal income tax purposes. The Company's status as a PFIC must be determined annually and therefore may be subject to change depending upon, among other things, changes in the activities or assets of the Company. If the Company were to become a PFIC for any taxable year, materially adverse consequences could result to US Holders (whether or not the Company continued to be a PFIC).

THE STATEMENTS ABOUT US FEDERAL TAX CONSIDERATIONS ARE MADE TO SUPPORT THE MARKETING OF THE SHARES AND GDRs. NO TAXPAYER CAN RELY ON THEM TO AVOID TAX PENALTIES. EACH PROSPECTIVE PURCHASER SHOULD SEEK ADVICE FROM AN INDEPENDENT TAX ADVISOR ABOUT THE TAX CONSEQUENCES UNDER ITS OWN PARTICULAR CIRCUMSTANCES OF INVESTING IN THE SHARES OR GDRs UNDER THE LAWS OF CROATIA, THE UNITED STATES AND ITS CONSTITUENT JURISDICTIONS AND ANY OTHER JURISDICTIONS WHERE THE PURCHASER MAY BE SUBJECT TO TAXATION.

As used here, a "US Holder" means a beneficial owner of the Shares or GDRs that is for US federal income tax purposes (i) an individual citizen or resident of the United States, (ii) a corporation or other business entity created or organized under the laws of the United States or its political subdivisions, (iii) an estate the income of which is subject to US federal income tax without regard to its source or (iv) a trust subject to the primary supervision of a US court and the control of one or more US persons or that has elected to be treated as a domestic trust for US federal income tax purposes.

The US federal income tax treatment of a partner in a partnership that holds Shares or GDRs will depend on the status of the partner and the activities of the partnership. Partnerships should consult their tax advisors concerning the US federal income tax consequences to their partners of the acquisition, ownership and disposition of Shares or GDRs.

Generally, holders of GDRs will be treated for US federal income tax purposes as holding the Shares represented by the Shares or GDRs. No gain or loss will be recognized upon the exchange of Shares for GDRs or an exchange of GDRs for Shares. A US Holder's tax basis in any withdrawn Shares will be the same as the US Holder's tax basis in the GDRs surrendered, and the holding period of the Shares will include the holding period of the GDRs.

Dividends

Dividends on Shares or GDRs will be includable in a US Holder's gross income as ordinary income from foreign sources when the US Holder or the GDR Depositary actually or constructively receives the dividend. The dividends will not be eligible for the dividends received deduction generally allowed to US corporations or the preferential tax rate applicable to qualified dividend income of individuals and certain other non-corporate persons. The amount includible in income on account of a dividend paid in Kuna will be the US dollar value of the payment on the date the US Holder recognizes the dividend, regardless of whether the US Holder converts the payment into US dollars at that time. Any gain or loss recognized by a US Holder on a subsequent conversion or other disposition of the Kuna generally will be treated as ordinary income or loss from US sources.

Capital gains

A US Holder will recognize capital gain or loss on the sale or other disposition of the Shares or GDRs in an amount equal to the difference between the US Holder's adjusted tax basis in the Shares or GDRs and the amount realized from the disposition. A US Holder's adjusted tax basis generally will be its US dollar cost for the Shares or GDRs. The US dollar cost of a Share or GDR purchased with foreign currency generally will be the US dollar value of the purchase price paid in the Offering. The capital gain or loss generally will be from sources within the United States, and will be long-term capital gain or loss if the US Holder has held the Shares or GDRs for more than one year. Deductions for capital losses are subject to limitations.

If a US Holder receives a currency other than US dollars upon disposition of the Shares or GDRs, the US Holder will realize an amount equal to the US dollar value of the currency received on the date of disposition or, if the Shares or GDRs are considered to be traded on an established securities market and the US Holder is a cash-basis or electing accrual basis taxpayer, the settlement date. The US Holder will have a tax basis in the currency received equal to the US dollar amount realized. Gain or loss on a subsequent conversion or other disposition of the foreign currency received generally will be US-source ordinary income or loss.

Passive foreign investment company

The Company believes that it is not and will not become a passive foreign investment company ("PFIC") for US federal income tax purposes. A non-US company is a PFIC in any taxable year in which, after taking into account the income and assets of certain subsidiaries, either (i) at least 75 per cent. of its gross income is passive income or (ii) at least 50 per cent. of the average value of its assets is attributable to assets that produce or are held to produce passive income. The principal products of the Group are commodities, but passive income does not include active business gains or losses from the sale of commodities if substantially all of the Group's commodities are inventory, depreciable property used in its trade or business or supplies used or consumed by the Group in the ordinary course of business. The Company believes that it qualifies for the active business exception, but it cannot assure a US Holder that the requirements for this exception will be met in future years.

If a company is a PFIC in any year when a US Holder owns its Shares or GDRs, the US Holder is subject to additional taxes on any excess distributions received from the company and any gain realized from the sale or other disposition of its Shares or GDRs (regardless of whether the company continues to be a PFIC). A US Holder has an excess distribution to the extent that distributions on the Shares or GDRs during a taxable year exceed 125 per cent. of the average amount received during the three preceding taxable years (or, if shorter, the US Holder's holding period). To compute the tax on excess distributions or any gain, (i) the excess distribution or the gain is allocated ratably over a US Holder's holding period, (ii) the amount allocated to the current taxable year and any year before the company became a PFIC is taxed as ordinary income in the current year and (iii) the amount allocated to other taxable years is taxed at the highest applicable marginal rate in effect for each year and an interest charge is imposed to recover the deemed benefit from the deferred payment of the tax attributable to each year.

If the Company were a PFIC, a US Holder might be able to avoid some of the tax consequences described above by electing to mark the Shares or GDRs to market annually. A US Holder can elect to mark the Shares or GDRs to market only if our shares are marketable stock. Our shares will be marketable stock if they are traded (other than in de minimis quantities) on a qualified exchange for at least 15 days during each calendar quarter. The ZSE will be a qualified exchange only if, among other things, it maintains trading volumes, financial disclosure and other requirements designed to prevent fraud and protect investors. Any gain from marking the Shares or GDRs to market or from disposing of them is ordinary income. A US Holder can recognize loss from marking the Shares or GDRs to market, but only to the extent of its unreversed gains. Loss recognized from marking the Shares or GDRs to market is ordinary, but loss on disposing of them is capital loss except to the extent of unreversed gains. Each US Holder should ask its tax advisor whether a mark-to-market election is available or desirable.

If the Company were a PFIC, a US Holder could not avoid the tax consequences just described by electing to treat the Company as a qualified electing fund ("QEF"), because the Company will not prepare the information that a US Holder would need to make a QEF election.

Backup withholding and information reporting

Dividends on Shares or GDRs and proceeds from the sale or other disposition of Shares or GDRs may be reported to the US Internal Revenue Service (the "IRS") unless the US Holder is a corporation or otherwise establishes a basis for exemption. Backup withholding tax may apply to amounts subject to reporting if the US Holder fails to provide an accurate taxpayer identification number or otherwise establish a basis for exemption. A US Holder can claim a credit against its US federal income tax liability for amounts withheld under the backup withholding rules, and it can claim a refund of amounts in excess of its liability by furnishing the appropriate information to the IRS.

THE DISCUSSION ABOVE IS A GENERAL SUMMARY. IT DOES NOT COVER ALL TAX MATTERS THAT MAY BE IMPORTANT TO A PARTICULAR INVESTOR. EACH PROSPECTIVE INVESTOR SHOULD CONSULT ITS OWN TAX ADVISOR ABOUT THE TAX CONSEQUENCES OF AN INVESTMENT IN THE SHARES OR GDRS UNDER THE INVESTOR'S OWN CIRCUMSTANCES.

United Kingdom Tax Consequences

The following discussion describes the material United Kingdom tax consequences relating to the purchase, ownership and disposition of Shares or GDRs. The comments below are of a general nature based on current United Kingdom law and published HM Revenue & Customs practice, both of which are subject to change, possibly with retrospective effect. This summary only covers the principal United Kingdom tax consequences for the absolute beneficial owners of Shares or GDRs who are, except where otherwise stated, resident in the United Kingdom for tax purposes. This summary is written on the basis that absolute beneficial owners of GDRs will be treated for United Kingdom tax purposes as absolute beneficial owners of the Shares represented by the GDRs and references to GDRs should be read accordingly. It assumes that no register of the Shares or GDRs is to be kept in the United Kingdom, that neither the Shares nor the GDRs are to be held or issued by a UK depositary service, and that neither the Shares nor the GDRs are to be paired with any shares issued by a UK company.

The comments below do not necessarily apply to all categories of investor. In particular, these comments do not apply to the following:

- investors who are not the beneficial owners of the Shares or GDRs;
- investors who do not hold their Shares or GDRs as capital assets;
- special classes of investor such as dealers, tax-exempt investors, insurance companies or collective investment schemes; or
- investors that own (or are deemed to own) 10 per cent. or more of the Company's voting rights, Shares or GDRs.

THE FOLLOWING IS INTENDED ONLY AS A GENERAL GUIDE AND IS NOT INTENDED TO BE, NOR SHOULD IT BE CONSIDERED TO BE, LEGAL OR TAX ADVICE TO ANY PARTICULAR HOLDER. PROSPECTIVE INVESTORS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS PRIOR TO INVESTING WITH RESPECT TO THEIR OWN PARTICULAR CIRCUMSTANCES.

Taxation of dividends

Holders who are resident in the United Kingdom for tax purposes or who are carrying on a trade, profession or vocation in the United Kingdom through a branch or agency or, in the case of a corporate holder, a permanent establishment in connection with which the Shares or GDRs are held will, in general, be subject to income tax or corporation tax on the gross amount of any dividends paid by the Company in relation to those Shares or GDRs. Individual holders may liable to income tax at either the dividend ordinary rate (currently 10 per cent.) or the dividend upper rate (currently 32.5 per cent.), depending on their individual circumstances. Foreign withholding tax, if any, withheld from the payment of a dividend (and not recoverable from the foreign tax authorities via a tax treaty claim or otherwise) will generally be available as a credit against all or some of the income or corporation tax payable by the holder in respect of the dividend.

Taxation of disposals

The disposal or deemed disposal of the Shares or GDRs by a holder who either:

(a) is resident or (in the case of individual holders only) ordinarily resident in the United Kingdom for tax purposes; or

(b) (if not so resident or ordinarily resident) carries on a trade, profession or vocation in the United Kingdom through a branch or agency (or, in the case of a company, a permanent establishment) and has used the Shares or GDRs in or for the purposes of such trade, profession or vocation or has used or held the Shares or GDRs for the purposes of, or has acquired the Shares or GDRs for use by or for the purposes of, the branch or agency (or permanent establishment),

may give rise to a chargeable gain or an allowable loss for the purposes of United Kingdom taxation of capital gains, depending on the holder's circumstances and subject to any available exemption or relief. In addition, holders who are individuals and who dispose of their Shares or GDRs while they are temporarily non-resident may be treated as disposing of them in the tax year in which they again become resident or ordinarily resident in the United Kingdom.

As regards a holder who is an individual, the principal factors that will determine the extent to which such gain will be subject to United Kingdom taxation of chargeable gains ("CGT") include the extent to which the holder realizes any other capital gains in that year, the extent to which the holder has incurred capital losses in that or any earlier year, the level of the annual allowance of tax-free gains in the tax year in which the disposal takes place (the "annual exemption"), and the level of available taper relief.

As regards a holder who is an individual, taper relief will operate to reduce the proportion of any such gain realized on the disposal of the Shares or GDRs that is brought into the charge to CGT if the Shares or GDRs are held by the holder for at least three years (on the basis that the Shares or GDRs constitute non-business assets in the hands of the relevant holder). In the case of non-business assets, a reduction of 5 per cent. of the gain is made for each whole year for which the Shares or GDRs have been held in excess of two years up to a maximum reduction of 40 per cent. after 10 complete years of holding.

The annual exemption for individuals for the 2006/2007 tax year is £8,800. Under current legislation this exemption is, unless the United Kingdom Parliament decides otherwise, increased annually in line with the rate of increase in the retail prices index. Holders should be aware that the United Kingdom Parliament is entitled to withdraw this link between the level of the annual exemption and the retail prices index, or even to reduce the level of the annual exemption for future tax years below its current level.

A holder which is a United Kingdom resident company is entitled to an indexation allowance that will operate to reduce chargeable gains to the extent that there is a change in the retail prices index. Indexation allowance may operate to reduce a chargeable gain, but not so as to create an allowable loss.

Stamp duty and stamp duty reserve tax

No liability to United Kingdom stamp duty or stamp duty reserve tax will arise on the issue of Shares or GDRs to investors.

United Kingdom stamp duty will not normally be payable in connection with the transfer of Shares or GDRs provided that the instrument of transfer is executed and retained outside the United Kingdom, the shareholder register and the GDR register are not held in the United Kingdom, and there is no other matter or thing done or to be done in the United Kingdom by the transferor or transferee.

No United Kingdom stamp duty reserve tax will be payable in respect of any agreement to transfer Shares or GDRs provided that the Shares or GDRs are not registered in a register kept in the United Kingdom by or on behalf of the Company.

PLAN OF DISTRIBUTION

The Offering

The Selling Shareholder is offering for sale 1,500,000 Shares, subject to an over-allotment option of up to an additional 200,000 Shares, in a public offering in Croatia by way of the Preferential Offering. To the extent any Shares (including any Shares subject to the over-allotment option) are not taken up in the Preferential Offering, such Shares will be offered for sale by the Selling Shareholder in a public offering in Croatia by way of the Non-Preferential Offering to natural persons, Croatian legal persons and foreign investors in Croatia (other than the Managers). Any remaining Shares that have not been sold in the Non-Preferential Offering in accordance with the preceding sentence may be sold to the Managers.

Any Shares purchased by the Managers may be re-sold, in the form of Shares or GDRs, (i) to institutional investors outside the United States in reliance upon Regulation S and (ii) in the United States to QIBs in reliance upon Rule 144A.

INA, the Selling Shareholder and the Managers in the Non-Preferential Offering named below have entered into a share purchase agreement dated 10 November 2006 (the "Share Purchase Agreement") with respect to the offer and sale to the Managers of the Shares in the Non-Preferential Offering. Subject to the satisfaction of certain conditions set out therein Share Purchase Agreement and execution of the Pricing Supplement on 28 November 2006, each Manager has agreed, severally but not jointly, to purchase and pay for such number of Shares as are set forth opposite its name in the following table, assuming the over-allotment option is not exercised.

Managers	Number of shares
Merrill Lynch International[1]	360,196
Raiffeisen Centrobank AG[2]	154,370
Raiffeisenbank Austria d.d.[3]	0
Total	514,566

Notes:

(1) Merrill Lynch International is an international investment bank. Its offices in London are located at Merrill Lynch Financial Centre, 2 King Edward Street, London EC1A 1HQ.

(2) Raiffeisen Centrobank AG is an international investment bank. Its offices are located at A-1015, Vienna, Tegetthoffstrasse 1, Austria.

(3) Raiffeisenbank Austria d.d. is a Croatian commercial bank. Its offices are located at Petringska 59, 1000 Zagreb, Republic of Croatia.

The Offer Price is HRK 1,690 per Share. The offer price of the GDRs is U.S$303.41 per GDR. The Offer Price was determined on the basis of a bookbuilding process. The Managers will receive aggregate fees of U.S.$6,630,459 million.

The Selling Shareholder will receive all of the proceeds from the sale of the Shares, and will pay the Managers' fees as well as certain additional expenses arising in connection with the Offering. INA has agreed to pay certain expenses arising in connection with the Offering, amounting to approximately U.S.$8.2 million.

The Selling Shareholder has granted to the Joint Bookrunners, on behalf of the Managers, an over-allotment option, which is exercisable, subject to demand in the Preferential Offering, on one occasion only at any time until 30 days after the Pricing Date, to purchase up to a further 200,000 additional Shares in the Non-Preferential Offering at the Offer Price, solely to cover over-allotments, if any, and to cover short positions relating to stabilization activities.

INA has provided the Managers with customary representations and warranties in the Share Purchase Agreement, including in relation to INA's business, the Shares and GDRs and the contents of this prospectus. The Selling Shareholder has provided the Managers with customary representations and warranties in the Share Purchase Agreement, including in relation to the contents of this prospectus and its title to the Shares it is selling in the Offering.

The Share Purchase Agreement provides that the obligations of the Managers are subject to certain conditions precedent. In addition, the Joint Bookrunners, on behalf of the Managers, may terminate the Share Purchase Agreement in certain circumstances prior to the Closing Date. INA and the Selling Shareholder have agreed in the Share Purchase Agreement, subject to its terms, to indemnify the Managers against certain liabilities in connection with the sale of the Shares.

Other Relationships

The Managers and their respective affiliates have, from time to time, engaged in transactions with and performed various investment banking, financial advisory and other services for INA and the Selling Shareholder and their respective affiliates, for which they received customary fees. The Managers and their respective affiliates may provide such services for INA and the Selling Shareholder and their respective affiliates in the future. In connection with the Offering, each of the Managers and any affiliate acting as an investor for its own account may take up Securities and in that capacity may retain, purchase or sell for its own account such Securities and any related investments and may offer or sell such Securities or other investments otherwise than in connection with the Offering. Accordingly, references in this prospectus to the Securities being offered or placed should be read as including any offering or placement of Securities to the Managers and any affiliate acting in such capacity. No Manager intends to disclose the extent of any such investment or transactions otherwise than to INA and the Selling Shareholder and in accordance with any legal or regulatory obligation to do so. In addition, in connection with the Offering, certain of the Managers may enter into financing arrangements with investors, such as share swap arrangements or lending arrangements where Securities are used as collateral, that could result in such Managers acquiring shareholdings in INA.

Stabilization

In connection with this Offering, Raiffeisenbank Austria d.d., as stabilizing manager with respect to the Shares on the ZSE, or its agents may, after consultation with and the approval of the Joint Bookrunners, and Merrill Lynch International, as stabilizing manager with respect to the GDRs on the London Stock Exchange, or its agents may, for a limited period after the announcement of the Offer Price, over-allot or effect transactions in the Shares or the GDRs, as the case may be, with a view to supporting the market price of the Shares or the GDRs, as the case may be, at a level higher than that which might have otherwise prevailed in the open market. However, the stabilizing managers or such agents have no obligation to do so. Such stabilization, if commenced, may begin on the date of adequate public disclosure of the Offer Price, may be effected in the over-the-counter market or otherwise and may be discontinued at any time, but in no event later than the over-the-counter market or otherwise and may be discontinued at any time, but in no event later than 30 calendar days after the date of such adequate public disclosure of the Offer Price. The Managers do not intend to disclose the extent of any such stabilization transactions otherwise than in accordance with any legal or regulatory obligation to do so.

Lock-up Arrangements

INA, the Selling Shareholder, MOL and the War Veterans' Fund have agreed, for a period of 180 days after the Pricing Date subject to certain limited exceptions, not to offer, sell, contract to sell, pledge, charge, grant options over or otherwise dispose of (or publicly announce any such offer, sale, contract to sell, pledge, share option or disposal of), directly or indirectly, any of the shares in INA or securities convertible or exchangeable into or exercisable for any of the shares in INA or warrants or other rights to purchase the shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the shares, including equity swaps, forward sales and options or GDRs representing the right to receive any of the shares without the prior written consent of the Managers. However, such consent shall not be required, in the case of the Selling Shareholder, for the sale of the Shares in the Offering.

Selling Restrictions

United States

The Shares and the GDRs have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States except in certain transactions exempt from the registration requirements of the Securities Act.

In addition, until 40 days after the commencement of the Offering of the Shares and GDRs, an offer or sale of Shares or GDRs within the United States by a dealer (whether or not participating in the Offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

The Managers may offer the Shares (i) in the form of Shares and GDRs to investors outside the United States in accordance with Regulation S and (ii) in the form of Shares and GDRs only through a U.S. registered broker-dealer affiliate only to QIBs in the United States in accordance with Rule 144A. Each of the Managers has agreed that, except as permitted in the Share Purchase Agreement, it will not offer, sell or deliver Shares or GDRs within the United States.

European Economic Area

In relation to each member state of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date"), an offer of Shares or GDRs to the public which are the subject of the Offering contemplated by this prospectus may not be made to the public in that Relevant Member State prior to the publication of a prospectus in relation to the Shares or the GDRs which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of Shares or GDRs to the public in that Relevant Member State at any time:

(a) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;

(b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;

(c) to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the Sole Global Coordinator for any such offer; or

(d) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Shares or GDRs shall result in a requirement for the publication of a prospectus pursuant to Article 3 of the Prospectus Directive nor any measure implementing the Prospectus Directive in a Relevant Member State, and each person who initially acquires any Shares or GDRs to whom any offer is made under the Offering will be deemed to have represented, acknowledged and agreed that it is a "qualified investor" within the meaning of Article 2(1)(e) of the Prospectus Directive.

In the case of any Shares or GDRs being offered to a financial intermediary as that term is used in Article 3(2) of the Prospectus Directive, such financial intermediary will also be deemed to have represented, acknowledged and agreed that the Shares or GDRs acquired by it have not been acquired on a discretionary basis, where that fact means that the offer to the financial intermediary is deemed to be an offer to a qualified investor on behalf of, nor have they been acquired with a view to their offer or resale, to persons in any Relevant Member State other than qualified investors, as that term is defined in the Prospectus Directive, or in circumstances in which the prior consent of Merrill Lynch International and Raiffeisen Centrobank AG has been given to the offer or resale. INA, Merrill Lynch International and Raiffeisen Centrobank AG and their affiliates, and others will rely upon the truth and accuracy of the foregoing representations, acknowledgements and agreements. Notwithstanding the above, a person who is not a qualified investor and who has notified Merrill Lynch International and Raiffeisen Centrobank AG of such fact in writing may, with the consent of Merrill Lynch International and Raiffeisen Centrobank AG, be permitted to subscribe for or purchase Shares or GDRs.

The Managers may rely on the truth and accuracy of the foregoing representations, acknowledgements and agreements and will not be responsible for any loss occasioned by such reliance.

For the purposes of this provision, the expression "an offer of Shares or GDRs to the public" in relation to any Shares or GDRs in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Shares or the GDRs to be offered so as to enable an investor to decide to purchase or subscribe the Shares or the GDRs, as the same may be varied in that member state by any measure implementing the Prospectus Directive in that member state and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

United Kingdom

Each of the Managers has represented and agreed that: (1) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Shares or GDRs in circumstances in which Section 21(1) of the FSMA does not apply to INA and (2) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Shares or the GDRs in, from or otherwise involving the United Kingdom.

Japan

The securities offered hereby have not been and will not be registered under the Securities and Exchange Law of Japan (the "Securities and Exchange Law"). Accordingly, the Managers have represented, warranted and agreed that the Shares and the GDRs which it purchases will be purchased by it as principal and that, in connection with the Offering made hereby, it will not, directly or indirectly, offer or sell any Shares or GDRs in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any Company or other entity organized under the laws of Japan) or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and other relevant laws and regulations of Japan.

Croatia

The Shares offered hereby are subject to selling restrictions under the Law on Privatization of INA, providing for sale of minimum 15 per cent. of shares by way of public offering in compliance with regulations governing the issuance and trading in securities. These shares may be sold only in a public offering to (a) Croatian citizens, with pre-emptive rights, preferences and under conditions determined by the Government of the Republic of Croatia; and (b) Croatian legal entities and foreign investors, without pre-emptive rights and special preferences.

As long as Croatia is the owner of 10 per cent. or more of INA shares, none of the other shareholders, which would include holders of interests in the Shares, or their related parties, except in the case of sale to the strategic investor, can without a prior special consent of the Government acquire, gradually or at one time, INA voting shares whose aggregate nominal value exceeds 10 per cent. of the share capital or any other percentage of share capital, as approved by prior consent of the Government.

General

Neither INA nor the Managers, nor any person acting on INA's or the Managers' behalf, have taken or will take any action in any jurisdiction that would permit a public offering of the Shares or the GDRs, or the possession, circulation or distribution of this prospectus or any other material relating to INA or the Shares and the GDRs, in any jurisdiction where action for such purpose is required.

Accordingly, the Shares and the GDRs may not be offered or sold, directly or indirectly, nor may this prospectus or any other offering material or advertisement in connection with such securities be distributed or published, in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.

No dealer, salesperson or other person has been authorized to give any information or to make any representation not contained in this prospectus, and, if given or made, such information or representation must not be relied upon as having been authorized by INA or any Manager. This prospectus does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the securities to which it relates or an offer to sell or the solicitation of an offer to buy such securities in any circumstances in which such offer or solicitation is unlawful. Neither the delivery of this prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in INA's affairs since the date hereof or that the information contained in this prospectus is correct as of a date after its date.

Submission of offers in Croatia in the Preferential and Non-Preferential Offerings

The Selling Shareholder is making Shares available for sale in the public offering in Croatia to (i) Croatian citizens with priority right and preferential term in the Preferential Offering and (ii) to the extent that any of the Shares are not sold in the Preferential Offering, to natural persons, domestic legal persons and foreign investors without priority rights and preferential terms, in the Non-Preferential Offering, under the terms and conditions determined by the Government.

TRANSFER RESTRICTIONS

As a result of the following restrictions, you are advised to contact legal counsel prior to making any resale, pledge or transfer of the Shares or GDRs. Only the Shares or GDRs offered pursuant to the Offering will be subject to the following restrictions. For a description of the restrictions applicable to the GDRs subsequent to the Offering see "Description of the Global Depositary Receipts".

The Offering is being made in accordance with Rule 144A and Regulation S. The Shares and GDRs have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state of the United States and, accordingly, may not be offered or sold within the United States except to QIBs in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A and to persons outside the United States in accordance with Regulation S. Terms used in this section that are defined in Rule 144A or Regulation S are used herein as so defined.

Rule 144A

Each purchaser of Shares or GDRs within the United States pursuant to Rule 144A, by accepting delivery of this prospectus and the Shares or GDRs, will be deemed to have represented, agreed and acknowledged that:

(1) the Shares and GDRs have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state of the United States and are subject to significant restrictions on transfer;

(2) it is (i) a QIB, (ii) aware, and each beneficial owner of such Shares or GDRs has been advised, that the sale of such Shares or GDRs to it is being made in reliance on Rule 144A and (iii) acquiring such Shares or GDRs for its own account or for the account of a QIB;

(3) it agrees (or, if it is acting for the account of another person, such person has confirmed to it that such person agrees) that it (or such person) will not offer, resell, pledge or otherwise transfer such (x) Shares except: (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or for the account of a QIB, (b) in an offshore transaction (as such term is defined in Regulation S under the U.S. Securities Act) in accordance with Rule 903 or 904 of Regulation S (c) in accordance with Rule 144 under the Securities Act (if available), or (d) pursuant to an effective registration statement under the Securities Act, or (y) GDRs except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or for the account of a QIB, (b) in an offshore transaction to a person other than a U.S. person (as such terms are defined in Regulation S under the Securities Act) in accordance with Rule 903 or 904 of Regulation S, (c) in accordance with Rule 144 under the Securities Act (if available), or (d) pursuant to an effective registration statement under the Securities Act, in each case in accordance with any applicable securities laws of any state of the United States. The purchaser will, and each subsequent holder is required to, notify any subsequent purchaser from it of those Shares or GDRs of the resale restrictions referred to above;

(4) notwithstanding anything to the contrary in the foregoing paragraphs, the Shares or GDRs may not be deposited into any unrestricted depositary facility established or maintained by a depositary bank (including Citibank, N.A.), unless and until such time as those Shares or GDRs are no longer "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act;

(5) INA, the Depositary, the Selling Shareholder, the Managers and their and INA's respective affiliates will rely upon the truth and accuracy of the acknowledgements, representations and agreements in the foregoing paragraphs. If it is acquiring INA's Shares or GDRs for the account of one or more QIBs, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account;

(6) it understands that the Rule 144A GDRs and the Master Rule 144A GDR sold in the United States will bear a legend substantially to the following effect:

"NEITHER THIS RULE 144A GDR CERTIFICATE, NOR THE RULE 144A GDRs EVIDENCED HEREBY, NOR THE SHARES REPRESENTED THEREBY HAVE BEEN OR WILL BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "U.S. SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE OFFER, SALE, PLEDGE OR

OTHER TRANSFER OF EACH OF THIS RULE 144A GDR CERTIFICATE, THE RULE 144A GDRs EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY IS SUBJECT TO CERTAIN CONDITIONS AND RESTRICTIONS. THE HOLDERS AND THE BENEFICIAL OWNERS HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING THIS RULE 144A GDR CERTIFICATE AND THE RULE 144A GDRs EVIDENCED HEREBY, ACKNOWLEDGE THAT SUCH RULE 144A GDR CERTIFICATE, THE RULE 144A GDRs EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT AND AGREE FOR THE BENEFIT OF THE COMPANY AND THE DEPOSITARY THAT (X) THIS RULE 144A GDR CERTIFICATE AND THE RULE 144A GDRs EVIDENCED HEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE U.S. SECURITIES ACT AND APPLICABLE LAWS OF THE STATES, TERRITORIES AND POSSESSIONS OF THE UNITED STATES GOVERNING THE OFFER AND SALE OF SECURITIES AND ONLY (1) IN AN OFFSHORE TRANSACTION TO A PERSON OTHER THAN A U.S. PERSON (AS DEFINED IN REGULATION S UNDER THE U.S. SECURITIES ACT) IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT, (2) TO A PERSON WHOM THE HOLDER AND THE BENEFICIAL OWNER REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE U.S. SECURITIES ACT ("RULE 144A") PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT PROVIDED BY RULE 144 UNDER THE U.S. SECURITIES ACT (IF AVAILABLE), OR (4) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE U.S. SECURITIES ACT, AND (Y) THE SHARES REPRESENTED BY THE RULE 144A GDRs MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE U.S. SECURITIES ACT AND APPLICABLE LAWS OF THE STATES, TERRITORIES AND POSSESSIONS OF THE UNITED STATES GOVERNING THE OFFER AND SALE OF SECURITIES AND ONLY (1) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR 904 OF REGULATION S UNDER THE U.S. SECURITIES ACT, (2) TO A PERSON WHOM THE HOLDER AND THE BENEFICIAL OWNER REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT PROVIDED BY RULE 144 UNDER THE U.S. SECURITIES ACT (IF AVAILABLE), OR (4) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE U.S. SECURITIES ACT.

THE BENEFICIAL OWNER OF SHARES RECEIVED UPON CANCELLATION OF ANY RULE 144A GDR MAY NOT DEPOSIT OR CAUSE TO BE DEPOSITED SUCH SHARES INTO ANY DEPOSITARY RECEIPT FACILITY ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK, OTHER THAN A RULE 144A RESTRICTED DEPOSITARY RECEIPT FACILITY, SO LONG AS SUCH SHARES ARE "RESTRICTED SECURITIES" WITHIN THE MEANING OF RULE 144(a)(3) UNDER THE U.S. SECURITIES ACT. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE U.S. SECURITIES ACT FOR RESALE OF THE SHARES OR THE RULE 144A GDRs.

EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS RULE 144A GDR CERTIFICATE OR A BENEFICIAL INTEREST IN THE RULE 144A GDRs EVIDENCED HEREBY, AS THE CASE MAY BE, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING RESTRICTIONS.

IT IS EXPECTED THAT THE SHARES DEPOSITED HEREUNDER WILL BE REGISTERED ON THE SHARE REGISTER MAINTAINED BY THE CENTRAL DEPOSITORY AGENCY, THE SHARE REGISTRAR OF INA, IN THE NAME OF CITIBANK, N.A., AS DEPOSITARY, OR ITS NOMINEE, OR OF THE CUSTODIAN, OR ITS NOMINEE"; and

(7) it understands that the Rule 144A GDRs will initially be represented by a Master Rule 144A GDR and, before any beneficial interests in Rule 144A GDRs represented by the Master Rule 144A GDR

may be transferred to a person who takes delivery in the form of a beneficial interest in Regulation S GDRs represented by the Master Regulation S GDR, the transferor will be required to provide certain written certifications.

Prospective purchasers are hereby notified that sellers of the Shares or GDRs may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Regulation S

Each purchaser of Shares or GDRs outside the United States pursuant to Regulation S, by accepting delivery of this prospectus and the Shares or GDRs, will be deemed to have represented, agreed and acknowledged that:

(1) it is aware that (a) the sale of the Shares and GDRs to it is being made pursuant to and in accordance with Rule 903 or 904 of Regulation S, (b) it is, or at the time such Shares or GDRs are purchased will be, the beneficial owner of those Shares or GDRs and (c) it is purchasing such Shares or GDRs in an offshore transaction meeting the requirements of Regulation S;

(2) it understands that the Shares and GDRs have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state of the United States;

(3) it acknowledges that INA, the Depositary, the Selling Shareholder, the Managers and their and INA's respective affiliates will rely upon the truth and accuracy of the acknowledgements, representations and agreements in the foregoing paragraphs; and

(4) it understands that the Regulation S GDRs and the Master Regulation S GDR will bear a legend substantially to the following effect:

"NEITHER THIS REGULATION S GDR CERTIFICATE, NOR THE REGULATION S GDRs EVIDENCED HEREBY, NOR THE SHARES REPRESENTED THEREBY HAVE BEEN OR WILL BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "U.S. SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE OFFER, SALE, PLEDGE OR OTHER TRANSFER OF THIS REGULATION S GDR CERTIFICATE, THE REGULATION S GDRs EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY IS EACH SUBJECT TO CERTAIN CONDITIONS AND RESTRICTIONS. THE HOLDERS AND THE BENEFICIAL OWNERS HEREOF, BY PURCHASING OR OTHERWISE ACQUIRING THIS REGULATION S GDR CERTIFICATE AND THE REGULATION S GDRs EVIDENCED HEREBY, ACKNOWLEDGE THAT SUCH REGULATION S GDR CERTIFICATE, THE REGULATION S GDRs EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT AND AGREE FOR THE BENEFIT OF THE COMPANY AND THE DEPOSITARY THAT THIS REGULATION S GDR CERTIFICATE, THE REGULATION S GDRs EVIDENCED HEREBY AND THE SHARES REPRESENTED THEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE U.S. SECURITIES ACT AND APPLICABLE LAWS OF THE STATES, TERRITORIES AND POSSESSIONS OF THE UNITED STATES GOVERNING THE OFFER AND SALE OF SECURITIES.

EACH HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THIS REGULATION S GDR CERTIFICATE OR A BENEFICIAL INTEREST IN THE REGULATION S GDRs EVIDENCED HEREBY, AS THE CASE MAY BE, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING RESTRICTIONS.

IT IS EXPECTED THAT THE SHARES DEPOSITED HEREUNDER WILL BE REGISTERED ON THE SHARE REGISTER MAINTAINED BY THE CENTRAL DEPOSITORY AGENCY, THE SHARE REGISTRAR OF INA, IN THE NAME OF CITIBANK, N.A., AS DEPOSITARY, OR ITS NOMINEE, OR OF THE CUSTODIAN, OR ITS NOMINEE." and;

(5) it understands that the Regulation S GDRs will initially be represented by a Master Regulation S GDR and, before any beneficial interest in the Regulation S GDRs represented by the Master Regulation S GDR may be transferred to a person who takes delivery in the form of a beneficial interest in the Rule 144A GDRs represented by the Master Rule 144A GDR, the transferor will be required to provide certain written certifications.

Other Provisions Regarding Transfers of the GDRs

Interests in the Rule 144A GDRs may be transferred to a person whose interest in such GDRs is subsequently represented by the Master Regulation S GDR only upon receipt by the depositary of written certification (in the form provided in the Regulation S Deposit Agreement) from the transferor to the effect that, among other things, such transfer is being made in accordance with Regulation S. Interests in Regulation S GDRs may be transferred to a person whose interest in such GDRs is subsequently represented by the Master Rule 144A GDR only upon receipt by the depositary of written certifications from the transferor (in the forms provided in the Rule 144A Deposit Agreement) to the effect that, among other things, such transfer is being made in accordance with Rule 144A. Any interest in GDRs represented by one of the Master GDRs that is transferred to a person whose interest in such GDRs is subsequently represented by the other Master GDR will, upon transfer, cease to be an interest in the GDRs represented by such first Master GDR and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to interests in GDRs represented by such other Master GDR for so long as it remains such an interest.

Shares

Pursuant to Article 90 of the Securities Market Act, securities listed on a stock exchange, such as the Shares, which will be listed on the ZSE, must be fully negotiable and paid in full. Fully negotiable means unconditional and unlimited negotiability regardless of the place and time of acquiring the securities, i.e. both for the trading on the stock exchange and other legal means of acquiring the securities.

In addition, pursuant to the Securities Market Act, title to the Shares is acquired only by means of their transfer from the transferor's to the transferee's dematerialized securities account held with CDA. A pledge over the Shares can be created by entry of the pledge on the pledgor's dematerialized securities account kept with CDA. There can only be one pledge created over the Shares.

Pursuant to the Law on Privatization of INA, as long as Croatia is owner of 10 per cent. or more of INA's shares, none of the other shareholders, which would include holders of interests in the Shares, or their related parties, except in the case of sale to the strategic investor, can, without the prior special consent of the Government acquire (gradually or at one time) INA's shares whose aggregate nominal value exceeds 10 per cent. of INA's share capital or another percentage of INA's share capital as approved by prior consent of the Government. Therefore, prior to the resale, pledge or transfer of INA's shares, a purchaser should establish whether a prior special consent of the Government is required, as an agreement entered into contrary to the mandatory rules are null and void.

STATEMENT PURSUANT TO THE CROATIAN CAPITAL MARKETS ACT

The Croatian-language prospectus produced for the purposes of listing the ordinary shares of INA on the Official Market of the ZSE (the "Croatian Prospectus") is signed by all members of the Management and Supervisory Boards of INA. The Croatian Prospectus is substantially similar to this prospectus, except that the section entitled "Plan of Distribution" therein contains additional information in relation to the Preferential and Non-Preferential Offerings. By signing the Croatian Prospectus, the members of the Management and Supervisory Boards of INA accept all responsibilities and all obligations for the information set out therein and confirm and state (having taken all reasonable steps to ensure that such is the case) as follows: *"Pursuant to our belief and in accordance with our best knowledge and the data that is available to us, we state that the information contained in this prospectus constitutes a comprehensive and truthful presentation of the assets and liabilities, profit and loss and financial situation and operations of INA, and of the rights pertaining to the securities it refers to, and that no facts that could affect the completeness and truthfulness of this prospectus have been omitted"*.

LEGAL MATTERS

Certain legal matters with respect to U.S. and English aspects of the Offering will be passed upon for INA by Freshfields Bruckhaus Deringer. Certain legal matters under Croatian law will be passed upon for INA by Franjo Benko i Danijel Benko. Certain legal matters with respect to the U.S. and English aspects of the Offering will be passed upon for the Managers by Linklaters. Certain legal matters under Croatian law will be passed upon for the Managers by Porobija & Porobija.

INDEPENDENT AUDITORS

The consolidated financial statements of INA Group as of and for the years ended 31 December 2003, 2004 and 2005 have been audited by the independent auditors, Deloitte, of Heinzelova 33, 10000 Zagreb, Republic of Croatia. The interim financial statements and related notes as of and for the six-month periods ended 30 June 2005 and 2006 included herein are unaudited. Deloitte d.o.o. is a member of the Croatian Chamber of Auditors.

LISTING AND GENERAL INFORMATION

(1) It is expected that all 10,000,000 of the ordinary shares of INA will be admitted to the ZSE Official Market on 1 December 2006. Trading in the Shares is expected to commence on or about 1 December 2006.

(2) It is expected that the GDRs will be admitted to the Official List on 1 December 2006. Application has been made for the GDRs to be traded on the Regulated Market of the London Stock Exchange.

(3) INA is a joint stock company, incorporated in Croatia on 31 October 1990 and transformed into a joint stock company on 23 July 1993, for an unlimited duration, and it operates under the laws of Croatia. INA is registered at the Commercial Court in Zagreb, registration number (MBS) 080000604. Its main administrative office and its registered office are located at Avenija V. Holjevca 10, 10002 Zagreb, Croatia and its telephone number is (+385 01) 645000.

(4) Copies of the following will be available for inspection and may be obtained free of charge, during normal business hours on any working days, at the office of INA, Avenija V. Holjevca 10, Zagreb, Croatia for the duration of the Offering:

- the Articles of Association of INA; and
- copies of INA's audited consolidated financial statements as of and for the years ended 31 December 2003, 2004 and 2005 and copies of its unaudited condensed consolidated financial statements as of and for the six months ended 30 June 2005 and 2006.

(5) If definitive certificates are issued in exchange for the Master GDRs, INA will appoint an agent in the United Kingdom.

(6) Save as disclosed in "Operating and Financial Review — Recent Trends," there has been no significant change in INA's financial or trading position since 30 June 2006 (the date of the latest unaudited interim financial statements).

(7) The following table sets forth details of INA's significant subsidiaries.

Subsidiary	Jurisdiction of incorporation	Ownership
Crosco d.o.o	Croatia	100 per cent.
STSI d.o.o	Croatia	100 per cent.
Proplin d.o.o.	Croatia	100 per cent.
Maziva — Zagreb d.o.o.	Croatia	100 per cent.
Sinaco d.o.o	Croatia	100 per cent.
Inter INA Limited	England & Wales	100 per cent.
Inter INA (Guernsey) Limited	Guernsey	100 per cent.
Holdina d.o.o. Sarajevo	Bosnia and Herzegovina	100 per cent.

(8) The GDRs are denominated in U.S. dollars and have no nominal or par value.

(9) The Offer Price for the Shares has been determined by the Government following receipt of all offers in the Preferential Offering and the completion of the bookbuilding process in the Non-Preferential Offering.

(10) Copies of this prospectus may be obtained at all outlets of the Agent and the registered office of INA, or ordered by post from the Agent. The results of the Offering will be made available upon the closing of the Offering to the public by INA at its registered offices in Zagreb and at the offices of the Agent in Zagreb.

(11) Holders of GDRs may contact Citibank, N.A., as depositary for the GDRs (Attn: Depositary Receipts Department) with questions relating to the transfer of GDRs on the books of the Depositary, which shall be maintained at the Depositary's principal office at 388 Greenwich Street, 14th Floor, New York, New York 10013.

(12) PGL
PGL has given and not withdrawn its written consent to the inclusion in this document of its report in Appendix 1, and the references thereto and to its name, in the form and context in which they appear and has authorized the contents of those parts of this document which comprise its report for the purposes of paragraph 5.5.4R(2)(f) of the Prospectus Rules.

For the purposes of Prospectus Rule 5.5.4R(2)(f), PGL declares that it is responsible for its report as part of the prospectus and declares that it has taken all reasonable care to ensure that the information contained in this report is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the consent letter in compliance with Annex X Item 1.2 of the Prospectus Directive Regulation.

(13) Deloitte

Deloitte has given and not withdrawn its written consent to the inclusion in this document of its report in the section headed "Financial Statements", and the references thereto and to its name, in the form and context in which they appear and has authorized the contents of those parts of this document which comprise its report for the purposes of paragraph 5.5.4R(2)(f) of the Prospectus Rules.

For the purposes of Prospectus Rule 5.5.4R(2)(f), Deloitte declares that it is responsible for its report as part of the prospectus and declares that it has taken all reasonable care to ensure that the information contained in this report is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the consent letter in compliance with Annex X Item 1.2 of the Prospectus Directive Regulation.

(14) The following is a summary of the cost and production-sharing terms, as well as any significant termination provisions, of the Production Sharing Agreements and Concession Agreements entered into by INA.

Offshore Croatia

North Adriatic (Ivana, Ika and Ida, and Anamarija fields)

The PSA between INA and ENI relating to the Ivana, Ika, Ida and Anamarija fields became effective on 27 February 1996 for a term of 25 years from the date of initial commercial production, with the total term not to exceed 33 years from the effective date of the PSA, with an option to extend further. All production, exploration and development costs are borne through an operating company, INAgip d.o.o., with equal participating interest of both parties. Production is split into three tranches:

(i) INA's Share: INA is entitled to 50 per cent. of production, out of which it must pay royalties (2.6 per cent. of revenue) for both itself and ENI and profit tax for both itself and ENI (20 per cent. tax rate);

(ii) ENI's Cost Recovery Share: ENI is entitled to claim up to 38 per cent. of production to recover expenses (all expenses become recoverable as soon as they are incurred). Any of ENI's 38 per cent. cost recovery share for which there are no recoverable expenses is allocated to INA; and

(iii) ENI's Profit Share: ENI is entitled to 12 per cent. of production throughout the term of the PSA.

The PSA for Ivana also applies to the Ika, Ida and Anamarija fields.

INA assumes and, where applicable, pays to ENI, any Croatian taxes imposed on ENI's income or profits plus the exploitation fee imposed by the Mining Law. See "Regulation — Croatia — Industry Regulation — Regulation of exploration for and exploitation of mineral resources — Exploitation".

The PSA gives ENI the right to withdraw from the agreement, without specifying any grounds for doing so, upon at least 60 (but not more than 180) days' notice.

Aiza-Laura (Marica and Katarina fields)

The PSA between INA and ENI relating to the Aiza-Laura field became effective on 27 June 1997 for a term of 25 years from the date of initial commercial production, with the total term not to exceed 33 years from the effective date of the PSA. The terms of the PSA are substantially the same as for the Ivana field. Production is split into three tranches:

(i) INA's Share: INA is entitled to 50 per cent. of production, out of which it must pay royalties (2.6 per cent. of revenue) for both itself and ENI and profit tax for both itself and ENI (20 per cent. tax rate);

(ii) ENI's Cost Recovery Share: ENI is entitled to claim up to 35 per cent. of production to recover expenses (all expenses become recoverable as soon as they are incurred). Any of ENI's 35 per cent. cost recovery share for which there are no recoverable expenses is allocated to INA; and

(iii) ENI's Profit Share: ENI is entitled to 15 per cent. of production throughout the term of the PSA.

Agreement for the sale of natural gas between INA d.d. (seller) and ENI S.p.A. — Divisione AGIP (buyer)

The agreement between INA and ENI became effective on 3 November 1999 and will expire (unless previously terminated in accordance with its terms) when production of natural gas at the Ivana field comes to an end in accordance with the terms of the PSA. It provides for the sale and delivery by INA to ENI of INA's share of natural gas production from the Ivana field. The contract price of the natural gas at the time of its delivery to ENI will be re-calculated monthly.

After the expiry of three years from the effective date of the agreement, the parties are entitled to adjust the price provisions of the agreement if (i) circumstances beyond their control induce significant changes in their respective domestic energy markets or (ii) regulatory changes impact on the economic benefit either party derives from the agreement, provided that the same adjustment is also made in the Buy-Back Agreement (see below). Further adjustments are possible at three-year intervals thereafter.

INA is responsible for any royalties, taxes or other sums arising upstream of the "selling delivery point" and ENI bears the costs of the relevant customs import clearances and any related expenses.

Agreement for the buy-back of natural gas between ENI S.p.A. — Divisione AGIP (seller) and INA (buyer) (as amended)

The agreement became effective on 3 November 1999 and will expire (unless previously terminated in accordance with its terms) when production of natural gas at the Ivana field comes to an end in accordance with the terms of the PSA. It provides for the sale and delivery by ENI to INA of certain quantities of natural gas, equivalent to INA's original share of natural gas production from the Ivana field. The contract price of the natural gas at the time of its delivery to INA will be re-calculated monthly.

After the expiry of three years from the effective date of the agreement, the parties are entitled to adjust the price provisions of the agreement if (i) circumstances beyond their control induce significant changes in their respective domestic energy markets or (ii) regulatory changes impact on the economic benefit either party derives from the agreement. Further adjustments are possible at three-year intervals thereafter.

INA bears the customs costs of delivery of the natural gas to the "buy-back delivery point" and will also be responsible for any royalties, taxes and other sums in respect of transportation of the natural gas downstream of the buy-back delivery point.

EdINA project (Izabela, Iris/Iva and Ivona fields)

The PSA between Edison and INA relating to the Izabela and Iris/Iva blocks was entered into on 22 April 2002 for a term of 20 years from the date of the initial production, with the total term not to exceed 25 years from the date of initial commercial production. On 1 December 2005, this PSA was expanded to include the Ivona block.

Edison bears all exploration costs and any further costs are borne according to the participating interest of the parties. Each party is permitted to recover 100 per cent. of its production costs borne during the exploration, development or production phase. The net share, the amount of oil and/or gas remaining from total available production after deducting all petroleum costs, is split between the parties pursuant to the contractually agreed split, depending upon the production rate.

If a commercial discovery is made, INA will be given the option of participating in production with an interest of up to 30 per cent. The future production from these fields will be shared according to the terms of PSA which provides that, after recovery of costs, INA's share of total production ranges from 50 per cent. to 80 per cent. INA's share of the production increases proportionately as levels of production increase and increase pro rata to its participating interest, if it opts to acquire one. In addition, Edison pays INA a production bonus of EUR 1 million on the date of initial commercial production and as specified production milestones are reached.

INA refunds Edison for any Croatian taxes imposed on Edison's income or profits, and pays the exploitation fee imposed by the Mining Law.

Edison has the right to withdraw from the agreement at any time, upon at least 60 (but not more than 180) days' notice, without specifying grounds for doing so.

Syria

INA has signed two PSAs with the Government of the Syrian Arab Republic ("SAR") and the Syrian Petroleum Company ("SPC").

Hayan block

The PSA between INA, SAR and SPC relating to the Hayan block was ratified on 15 August 1998. The contract period is 25 years from the date of the initial commercial discovery. INA is solely responsible for all exploration, development and production costs, which are recoverable from 40 per cent. per annum of all production. INA's share of total production starts at 31 per cent. for crude oil and at 40 per cent. for natural gas and declines as production increases.

SAR is entitled to a royalty of 12.5 per cent. of all petroleum produced and saved from the area, which SPC is obligated to pay. The remaining 87.5 per cent. is divided between SPC and INA as set out above.

The PSA specifies that SPC shall assume, pay and discharge on behalf of INA, and shall indemnify INA against, the imposition of all SAR income taxes out of sums received by SPC for its share of oil. INA pays SPC production bonuses as specified production milestones are reached.

Under a separate Agency and Service Agreement dated 20 May 1998 (as subsequently amended) between INA and Ganama Trading Co. ("Ganama"), INA pays Ganama certain fees and commissions in relation to consulting and agency services provided by Ganama, including a fee equal to 0.5-0.7 per cent. of the net profits realized by INA from commercial production from the Hayan block, subject to the services provided. This agreement remains in force for the term of the Hayan block PSA.

Aphamia block

The PSA between INA, SAR and SPC relating to the Aphamia block was signed on 17 January 2004, for an initial exploration term of four years, which may be renewed twice for two years on each occasion. In case of commercial discovery, the contract period shall be 25 years from the date of the initial commercial discovery. The PSA is identical to the Hayan PSA in all regards, including cost recovery, royalty and taxation payments except in relation to the hydrocarbon pricing mechanism and production sharing.

SAR is entitled to receive a 12.5 per cent. royalty on all petroleum produced and saved from the area during the development period, including during any extension periods. The remainder is to be divided between SPC and INA. Once INA has taken out oil to cover its production costs, it will take a share which starts at 31 per cent. and reduces as production increases. Similar provisions apply in respect of commercial discoveries of natural gas. SAR may require natural gas to be sold in Syria under gas supply contracts at a specified price. INA's share starts at 50 per cent. and reduces as production increases. Certain production bonuses are payable by INA to SPC as specified production milestones are reached.

SAR has limited rights of requisition in the event of imminent war or national emergency, but must indemnify INA in full if such an event occurs.

Egypt

East Yidma block

The Concession Agreement between the Arab Republic of Egypt, the Egyptian General Petroleum Corporation ("EGPC"), INA and RWE-DEA AG ("RWE") (INA and RWE, together, the "Contractors") relating to the East Yidma block became effective on 24 March 2004 for an initial exploration period of 2.5 years, with the possibility of two successive extension periods of two years each. In case of a commercial discovery, the development period shall be 20 years from the date of such commercial discovery, with possibility of a further extension.

The Contractors shall bear all exploration and development costs, and reimbursement is available if no commercial discoveries are made.

Forty per cent. of petroleum is earmarked for cost recovery. The remaining 60 per cent. is divided between EGPC and the Contractors. The Contractors' share starts at 30 per cent. for crude oil and 25 per cent. for gas and LPG, and declines as production increases. Certain production bonuses are payable to EGPC as specified production milestones are reached.

The Government of the Arab Republic of Egypt is entitled to a royalty of 10 per cent. of the total quantity of petroleum produced and saved from the area, which is to be paid by EGPC.

The Egyptian government has limited rights of requisition in the event of imminent war or national emergency, but must indemnify the contractors in full for the period during which the requisition is maintained.

Ras El Ush block

The Concession Agreement between the Arab Republic of Egypt, EGPC, IEOC Exploration B.V. ("IEOC") and INA (IEOC and INA, together, the "Contractors") relating to the Ras El Ush block was signed on 19 January 2003 for an initial exploration period of 2.5 years, with the possibility of two successive extension periods of two years each. In case of a commercial discovery, the development period shall be 20 years from the date of such commercial discovery, with the possibility for a further extension.

The Contractors bear all exploration and development costs, and reimbursement is available if no commercial discoveries are made.

Forty per cent. of petroleum is earmarked for cost recovery. The remaining 60 per cent. is divided between EGPC and the Contractors. The Contractor's share starts at 30 per cent. for crude oil and 25 per cent. for gas and LPG and declines as production increases. Certain production bonuses are payable to EGPC as specified production milestones are reached.

The Government of the Arab Republic of Egypt has a right to a royalty of 10 per cent. of the total quantity of petroleum produced and saved.

The Egyptian government has limited rights of requisition in the event of imminent war or national emergency, but must indemnify the Contractors in full for the period during which the requisition is maintained.

East Kalabsha block

The Concession Agreement between the Arab Republic of Egypt, EGPC, IEOC Exploration, INA and RWE (IEOC, INA and RWE, collectively, the "Contractors") relating to the East Kalabsha block became effective on 26 May 2005, for an initial exploration period of three years, with the possibility of one extension period for two years. In case of a commercial discovery, the development period shall be 20 years from the date of such commercial discovery, with the possibility for a further extension.

Thirty per cent. of petroleum is earmarked for cost recovery. The remaining 70 per cent. is divided between EGPC and the Contractors. The Contractors' share for crude oil, gas and LPG starts at 30 per cent. and declines as production increases.

The other material terms of the agreement are the same as those for the East Yidma block.

North Bahariya block

The Concession Agreement between the Arab Republic of Egypt, EGPC and IPR Transoil Corporation relating to the North Bahariya block was signed in 1998 for an initial exploration period of three years, with two potential extension periods of two years and one year, respectively. In 2001, IPR Transoil Corporation assigned the Concession Agreement to INA. In case of a commercial discovery, the development period shall be 20 years from the date of such commercial discovery, with the possibility of extension.

The Contractor bears all exploration and development costs, and reimbursement is available if no commercial discoveries are made.

Thirty-five per cent. of petroleum is earmarked for cost recovery. The remaining 65 per cent. is divided between EGPC and the Contractor. The Contractor's share starts at 15.5 per cent. for crude oil and declines as production increases. The Contractor's share for gas and LPG is 20 per cent. Certain production bonuses are payable to EGPC as specified production milestones are reached.

The Government of the Arab Republic of Egypt has a right to a royalty of 10 per cent. of the total quantity of petroleum produced and saved.

The Egyptian government has limited rights of requisition in the event of imminent war or national emergency, but must indemnify the Contractor in full for the period during which the requisition is maintained.

Angola

Block 3/05

The PSA between the Sociedade Nacional de Combustiveis de Angola — Empresa Publica ("Sonangol"), Sonangol, Pesquisa E Producao, SA ("Sonangol P&P"), China Sonangol International Holding Limited ("China Sonangol"), Angola Japan Oil Co. Ltd ("AJOCO"), ENI Angola Production B.V. ("ENI"), Sociedade Petrolifera Angolana SA ("Somoil"), NIS — Petroleum Industry of Serbia ("NIS") and INA (Sonangol P&P, China Sonangol, AJOCO, ENI, Somoil, NIS and INA, collectively, the "Partner Group") relating to Block 3/05 was entered into on 4 October 2005 for an initial term which expires on 30 June 2025. An extension of the initial term can be requested from Sonangol, but the Government of Angola determines whether to grant any extension.

The parties respective participating interests in the Partner Group are as follows: Sonangol P&P 25 per cent., China Sonangol 25 per cent., AJOCO 20 per cent., ENI 12 per cent., Somoil 10 per cent., NIS 4 per cent. and INA 4 per cent.

Fifty per cent. of crude oil is earmarked for cost recovery. The remaining 50 per cent. is shared between Sonangol and the Partner Group, with Sonangol receiving 70 per cent. and the Partner Group receiving 30 per cent.

Sonangol is entitled to a bonus of U.S.$17.5 million upon execution of the PSA, which is payable by the foreign companies in the Partner Group. This amount is recoverable as cost recovery. For participation in the Partner Group, the following non-recoverable amounts have to be paid to Sonangol: AJOCO U.S.$8 million, ENI U.S.$4.8 million, NIS U.S.$1.6 million and INA U.S.$1.6 million. The Partner Group is also required to pay U.S.$12.5 million, in three instalments, to Sonangol as a contribution in the name of Sonangol's social projects. This amount is not recoverable.

Sonangol can terminate the PSA if the Partner Group ceases production for a period of more than 90 days without good cause; discloses confidential information concerning the petroleum works without authorization and thereby causes damage to either the State or Sonagol; transfers its contractual interests, contrary to the PSA; intentionally produces a mineral which is not included in the PSA; or if the majority of the share capital of any member of the Partner Group is transferred to a non-affiliate without Sonangol's prior authorization, and in each case, if the breach is not remedied within 90 days.

Namibia

Zaris block

The Petroleum Agreement between INA and the Republic of Namibia for the Zaris block became effective on 23 November 2005. Under the Agreement, an exploration license is to be granted to INA in respect of the specified area, which is valid for two years from the date of the agreement. The exploration license may be renewed on up to two occasions for such a period (not exceeding two years) as the Namibian Minister for Mines and Energy may determine.

The agreement contemplates a 25-year production license being granted should a discovery of crude oil of a commercial interest be made.

Quarterly royalties are payable by INA (equal to 5 per cent. of the market value of petroleum produced and saved in the production area during the relevant quarter), as well as an annual charge based on the surface area covered by the license.

GLOSSARY OF CERTAIN INDUSTRY TERMS

The following explanations are not intended as technical definitions, but to assist the general reader to understand certain terms as used in this prospectus.

Additives	Chemicals added to fuel in very small quantities to improve and maintain fuel quality. Detergents and corrosion inhibitors are examples of gasoline additives.
Alteration	In the alteration process, the molecular structure in various hydrocarbons is rearranged to make desired hydrocarbons. The major alteration process is called alkylation, which is basically the inverse of cracking. In the process, lighter-weight compounds such as naphtha are mixed with catalysts, producing high octane hydrocarbons which can be used in gasoline blends.
American Petroleum Institute (API)	Association which, *inter alia*, sets standards and recommended practices for the petroleum and petrochemical industries.
API gravity	Illustrates the density of crude oil classified by the American Petroleum Institute. The API gravity is a specific gravity at 15.6^{o}C (or 60^{o}F); the higher the API gravity, the lighter the crude oil.
Aromatics	Group of hydrocarbons characterized by having at least one benzene ring structure of six carbon atoms somewhere in the molecule.
Atmospheric residue	Portion of crude oil taken as a base product in a crude oil distillation unit which operates at atmospheric pressure, also known as atmospheric bottoms, atmospheric fuel oil, long residue, straight-run heavy fuel oil or topped crude oil.
Barrel (bbl)	Standard of measurement in the oil industry; equivalent to 42 U.S. gallons, 35 Imperial gallons or 159 liters.
Base oil	Main component of lubricant blends.
Bitumen	Bitumen is a highly viscous, heavy semi-solid fraction obtained from the distillation of crude oil. Asphalt and tar are the most common forms of bitumen.
Brent	Brent blend (also referred to as Brent) is the most commonly traded North Sea crude oil with an API of approximately 37.5. Brent blend is a mix of crude from the Shell UK-operated Brent field and the BP-operated Ninian field.
Brent blend	Light North Sea crude oil with approximately 38^{o} API and a sulfur content of 0.4 per cent.
Calciner	Unit for removing impurities from coke.
Capacity utilization rate	Percentage of productive capacity currently being utilized. Measures how close a refinery is to maximum operating capacity.
Catalytic cracking	See "Cracking".
Catalytic reforming	Conversion of naphtha into higher-octane intermediate products suitable for blending into finished gasoline or for petrochemical feedstock.
CCGT	Combined Cycle Gas Turbine. Power generation plant that integrates a gas turbine and a steam turbine. CCGTs combine a first-cycle gas turbine that generates electricity through the combustion of gas; the heat produced from this process is converted into steam that then fuels a second-cycle steam turbine, producing more electricity.
Chemical processing	Chemical conversion of some of the resulting fractions from the distillation process into other, more desirable fractions. There are

three different methods for changing one fraction into another: cracking, unification and alteration.

Claus . . . . Chemical process for the recovery of sulfur.

CO_2 . . . . Carbon dioxide, a significant greenhouse gas.

Coker . . . . Refinery process in which heavy feeds are cooked at high temperatures, creating light oils.

Coking . . . . Most severe form of thermal cracking that can eliminate 100 per cent. of the residual oil feed. The process employs great heat at moderate pressure to convert fuel oil into naphtha, gas oils and coke. The process is designed to produce maximum yields of transportation fuels and can be used where there is little or no fuel oil demand.

Complexity . . . . Measure referring to an oil refinery's ability to process feedstock, such as heavier and higher sulfur-content crude oils, into value-added products. Generally, the higher the complexity and more flexible the feedstock slate, the better positioned the refinery is to take advantage of the more cost-effective crude oils, resulting in incremental gross margin opportunities for the refinery. A refinery's complexity is measured by a "complexity index" such as the Solomon Index or the Nelson Index.

Condensates . . . . Liquid hydrocarbons recovered from non-associated natural gas reservoirs. They normally have an API of between 50°and 85°.

Conversion . . . . Any processing step which breaks molecules into pieces which boil at lower temperatures.

Cracking . . . . Refining process of breaking down the larger, heavier, lower-value and more complex hydrocarbon molecules into simpler, lighter, and higher-valued molecules. Cracking is carried out either at high temperatures (thermal cracking) or with the aid of a catalyst and high pressure (catalytic cracking and hydrocracking). The cracking process enables greater quantities of saturated hydrocarbons suitable for gasoline and other light fractions to be recovered from crude oil.

Depression . . . . Natural depression: a sunken or depressed geological formation.

Desulfurization . . . . Process to eliminate the sulfur from petroleum products.

Distillate . . . . Range of petroleum products produced by distillation, the primary refining step in which crude oil is separated into fractions or components.

Downstream . . . . Refining segment of the petroleum industry, where feedstock is converted into usable end products.

Eligible customers . . . . Eligible customers are those who, on the date of entry into force of the Gas Market Act, were: generators of gas-fired power using the specified annual quantity of gas foreseen for such purpose, co-generators producing electricity and heat using the envisaged annual quantity of gas foreseen for such purpose, and final customers, buying gas exclusively for their own needs, whose annual consumption exceeds one hundred million cubic meters (m^3) of gas. The Government is entitled to prescribe additional or different criteria for qualifying as an "eligible customer", according to the pace of liberalization of the Croatian gas market. For example, in 2004, producers of raw iron, steel and ferroalloys, with an annual production of a minimum of 50,000 tonnes of raw steel qualified.

Emissions . . . . Releases of gases to the atmosphere. In the context of global climate change, they include potentially climate-changing greenhouse gases (e.g., the release of carbon dioxide during fuel combustion).

Enhanced Oil Recovery (EOR)	Injection of water, steam, gases or chemicals into underground reservoirs to cause oil to flow toward producing wells, permitting more recovery than would have been possible from natural pressure or pumping alone.
EU-15	Number of member countries in the EU prior to the accession of 10 candidate countries on 1 May 2004. The EU-15 comprised the following 15 countries: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden and the United Kingdom.
EURO IV and EURO V	EURO IV and EURO V are European emission standards which define acceptable limits for exhaust emissions from new vehicles sold in EU member states. EURO IV emissions standards came into effect in 2005. In order to meet these emissions standards, fuel regulations were introduced in 2005 which required diesel and gasoline to have a maximum sulphur content of 50 ppm. EURO V standards will come into effect in 2009. In order to meet these emissions standards, fuel regulations will be introduced in 2009 which will require that all diesel and gasoline have a maximum sulphur content of 10 ppm.
Feedstock	Raw material supplied to a refinery or processing plant. As used in this prospectus, refers to crude oil and other hydrocarbons used as basic materials in a refining or manufacturing process.
Finding costs.	Exploration costs divided by reserve additions for the period.
Fluid catalytic cracking (FCC)	See "Cracking".
FOB	Free on board. A delivery term denoting that the seller is responsible for delivering goods on board a ship or other conveyance for carriage to the consignee at a specified loading port as defined in the ICC Incoterms 2000.
Fractions	In the process of fractionation, hydrocarbons and other chemicals are separated into separate streams, cuts or fractions.
Fuel Oil	Fraction obtained from petroleum distillation, either as a distillate or a residue. Fuel oil is any liquid petroleum product that is burned in a furnace or boiler for the generation of heat or used in an engine for the generation of power, except oils having a flash point of approximately 40°C (about 100°F) and oils burned in cotton or wool-wick burners. Fuel oil is made of long hydrocarbon chains, particularly alkanes, cycloalkanes and aromatics.
Gas oil	General term for diesel fuel and heating oil.
Gasoline	Light distillate product used for spark-ignited internal combustion engines, for example in cars or aircraft.
H_2S.	Gaseous compound of sulfur and hydrogen commonly found in crude oil.
Heating oil	Fuel oil with an ignition temperature over 55°C. Heating oil is used in oil-fired heating plants and boilers and as a diesel equivalent to power some types of machinery.
Hydrocarbons	Any organic compound comprising hydrogen and carbon, including crude oil, natural gas and coal.
Hydrocracking.	See "Cracking".
Hydrodesulfurization (HDS).	Refinery process unit which removes sulfur from the molecules in any refinery stream by allowing it to react with hydrogen in the presence of a catalyst.

Hydrogen	Lightest of all gases, occurring chiefly in combination with oxygen in water. Hydrogen combines with carbon to form an enormous variety of gaseous, liquid and solid hydrocarbons.
Hydroskimming refinery	A hydroskimming refinery consists of an atmospheric distillation unit for separating the crude oil and a catalytic reformer to transform the low-octane naphtha into high-octane gasoline.
Isomerization unit	Refinery unit in which compounds are changed to their isomer form using a catalyst.
Kerosene	A petroleum product defined by a particular boiling range. Used as lamp oil and jet fuel oil, and is part of the light distillate group.
LNG	Liquefied Natural Gas. When natural gas is cooled to approximately $-160°C$, it condenses to a liquid which is commonly referred to as LNG. LNG's volume is approximately 1/600th of the volume of natural gas, making it more efficient for transportation.
LPG	Liquefied Petroleum Gas. A gas mixture used for fuel purposes, containing propane or butane as its main component, that has been liquefied to enable it to be transported and stored under pressure.
Lybia Es Sider	Libyan crude oil with a typical API of 36-37 and sulfur content of 0.40-0.42 per cent.
Methane	Simplest form of hydrocarbons which is the major hydrocarbon component of natural gas.
Midstream	Transportation segment of the petroleum industry, where hydrocarbons are transported from production source to refining facilities.
Mineral resources exploitation fee	Royalty fee paid for the right to exploit, or extract crude oil or natural gas from, given fields.
N_2	Nitrogen.
Naphtha	Light, easily vaporized, clear liquid used as a feedstock by the petrochemicals industry for the manufacturing of plastics, synthetic fibers, synthetic rubbers and other products.
Natural gas	Any hydrocarbon or mixture of hydrocarbons and other gases consisting primarily of methane which at normal operating conditions is in a gaseous state.
OPEC	Organization of Petroleum Exporting Countries. OPEC has 11 members including Qatar, Indonesia, Libya, UAE, Algeria and Nigeria. The 11 member countries control 75.2 per cent. of the world's proven oil reserves and accounted for 41.7 per cent. of global oil production in 2005. The policies of OPEC have a major influence on crude oil prices. OPEC sets production quotas for its member countries and hence affects the global supply of crude oil.
Paraffin waxes	Paraffin waxes are separated from crude oil during the production of light (distillate) lubricating oils.
Petrochemical	Intermediate product of oil refining which is used as feedstock for polymers and various other chemical products.
Petrol station	Facility which sells fuel, lubricants and other products for road motor vehicles.
Petroleum gases	The lightest products from the refining process consisting primarily of methane, ethane, propane and butane. Petroleum gases are often liquefied under pressure to create LPG supplied by pipeline, in filled tanks or in large bottles.

Pipeline plugging	Means of temporarily stopping flow in an operating pipeline without depressurization. If used in conjunction with bypass lines, product flow can be continued around the isolated section of pipeline to be repaired.
Platt's quotations	Oil price quotations by Platts, a company specializing in international economic and pricing forecasts for the oil industry.
Polyolefins	Class of polymers made by polymerizing relatively simple olefins.
Possible reserves	Reserves category with a low probability of being recoverable. In this context, when probabilistic methods are used, there should be at least a 10 per cent. probability that the quantities actually recovered will equal or exceed the sum of estimated proved plus probable plus possible reserves.
Ppm	Parts per million. A common unit of concentration of gases or vapor in air.
Primary energy demand	Total requirement for all uses of energy, including energy used by the final consumer, intermediate uses of energy in transforming one energy form to another (e.g. coal to electricity), and fuel used by suppliers in providing energy to the market (e.g. energy requirements by oil and natural gas producers).
Probable reserves	Reserves category with a medium probability of being recoverable. In this context, when probabilistic methods are used, there should be at least a 50 per cent. probability that the quantities actually recovered will equal or exceed the sum of estimated proved plus probable reserves.
Production sharing agreements (PSA)	Commercial contract between partners in an exploration and production project which defines the terms and conditions for the exploration and development of resources that shall be exploited during the project.
Proved reserve replacement rate	Ratio of newly discovered proved reserves versus those that were extracted.
Proved reserves	For the reporting of proved reserves, the procedures followed in conducting the audit are based on the reserves definitions stated in SEC Regulation S-X, Rule 4-10, "Financial Accounting and Reporting for Oil and Gas Producing Activities Pursuant to the Federal Securities Laws and the Energy Policy and Conservation Act of 1975". Proved reserves are the estimated quantities of crude oil, natural gas, and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e. prices and costs as of the date the estimate is made. Prices include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions.
Purification	Modification of hydrocarbon molecules to produce higher quality distillates. These pre-treatment processes can also lower the sulfur and nitrogen content and hence enhance the burning characteristics of the end product.
Recoverable reserves	Recoverable reserves represent the quantity of hydrocarbons that can be recovered (i.e. mined) from existing hydrocarbons reserves at reporting mines.
Refinery	Facility used to process crude oil. The basic process unit in a refinery is a crude oil distillation unit, which splits crude oil into various fractions through a process of heating and condensing. Simple, or

hydroskimming, refineries normally have crude oil distillation, catalytic reforming and hydrotreating units. Complex refineries have vacuum distillation, catalytic cracking, or hydrocracking units.

Refinery complexity . . . . See "Complexity".

Reformer. . . . . Unit that uses a plasma to convert a variety of fuels into high-quality, hydrogen-rich gas.

Residuals . . . . Residuals are the bottom fractions obtained from crude distillation units, vacuum distillation units and visbreaking units. Residuals include solids such as coke, asphalt, tar and waxes.

Siberian Light . . . . Russian crude oil with a typical API of 35-36 and sulfur content of 0.6 per cent.

Solomon and Nelson complexity indices . . . . See "Complexity".

Spindle oil . . . . Low viscosity oil for the lubrication of high-speed spindles such as those used in textile mills.

Syria Light . . . . Syrian crude oil with a typical API of 37.4-38.0 and sulfur content of 0.8 per cent.

Take-or-pay . . . . An obligation usually used in gas contracts which commits one party to purchase agreed quantities of gas whether delivery effectively occurs or not.

Throughput . . . . Amount passing through a system from input to output.

Unification . . . . Unification combines smaller hydrocarbons into larger ones. The most common unification process is catalytic reforming which uses a catalyst to combine low-weight naphtha into aromatics, which is used as a feedstock in petrochemical processes. The reforming process produces significant amounts of hydrogen gas as a by-product, which can be further utilized in the hydrocracking process.

Upstream . . . . Exploration and production segment of the petroleum industry, in which companies attempt to discover new hydrocarbon reserves and then extract them.

Vacuum residue . . . . Heavy hydrocarbons.

Visbreaker . . . . Chemical where thermal cracking in a furnace reactor (at high temperature) is used to transform heavy hydrocarbons (e.g. vacuum distillation residue) into lighter hydrocarbons (e.g. LPG, gasoline, etc.). Heavy hydrocarbons are generally used as fuel oil in chemical plants. The product of the visbreaker has a lower viscosity.

WTI . . . . West Texas Intermediate — a premium crude oil which is the U.S. benchmark crude oil. It has a relatively high natural yield of desirable naphtha and straight-run gasoline. The quality of the crude oil dictates the level of processing and re-processing necessary to achieve the optimal mix of product output.

INDEX TO FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of INA — Industrija nafte d.d.:

We have audited the accompanying consolidated balance sheets of INA — Industrija nafte d.d. and its subsidiaries (the "Group") as at 31 December 2005, 2004 and 2003 and the related consolidated statements of income, changes in equity, and cash flows for the years then ended, and accompanying notes on the pages from F-3 to F-75. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2005, 2004 and 2003, the results of its operations, its cash flows and changes in equity for the years then ended in accordance with International Financial Reporting Standards.

Deloitte d.o.o.

Deloitte d.o.o.

Zagreb, Croatia
31 October 2006

INA GROUP CONSOLIDATED STATEMENT OF INCOME

Years ended 31 December 2005, 2004 and 2003
(All amounts in HRK millions)

	Notes	2005	2004 Restated	2003 Restated
Sales revenue				
(a) Domestic		13,690	11,766	10,660
(b) Exports		7,380	6,222	4,685
Total sales revenue	3	21,070	17,988	15,345
Income from own consumption of products and services		636	447	616
Other operating income		554	489	495
Total operating income		22,260	18,924	16,456
Changes in inventories of finished products and work in progress		508	100	(94)
Cost of raw materials and consumables		(11,024)	(8,293)	(7,336)
Depreciation and amortization	4	(993)	(1,001)	(1,010)
Other material costs		(2,206)	(2,028)	(2,033)
Service costs		(1,008)	(955)	(972)
Staff costs	5	(2,257)	(1,969)	(1,899)
Cost of other goods sold		(3,307)	(2,794)	(2,366)
Impairment and charges (net)		(475)	(409)	(537)
Provision for charges and risks (net)		(88)	(152)	(14)
Operating expenses		(20,850)	(17,501)	(16,261)
Profit from operations		1,410	1,423	195
Share in the profit of associated companies	12	73	23	15
Finance revenue	6	181	354	783
Finance costs	7	(518)	(367)	(455)
Net (loss) / profit from financial activities		(337)	(13)	328
Profit for the year before taxation		1,146	1,433	538
Current taxes	8	(236)	(313)	(4)
Deferred taxes	8	(25)	10	60
Profit for the year		885	1,130	594
Earnings per share	9	88.5	113	59.4

Signed on behalf of the Group on 31 October 2006 by:

T. Dragičević

L. Geszti

The accompanying accounting policies and notes form an inseparable part of the Consolidated Income Statements.

INA - INDUSTRIJA NAFTE D.D. ZAGREB

INA GROUP CONSOLIDATED BALANCE SHEETS

31 December 2005, 2004 and 2003
(All amounts in HRK millions)

	Notes	2005	2004 Restated	2003 Restated
ASSETS				
Non-current assets				
Intangible assets	10	551	1,351	862
Property, plant and equipment	11	12,009	10,017	9,330
Investments in associates and joined ventures	12	58	144	143
Investments in other companies	13	54	59	88
Long-term receivables	14	204	218	238
Derivative financial instruments	35	225	135	201
Deferred tax	8	92	117	87
Available-for-sale assets		256	211	321
		13,449	12,252	11,270
Current assets				
Inventories	15	3,442	2,350	2,500
Trade receivables , net	16	2,304	1,983	1,938
Other receivables	17	262	200	237
Derivative financial instruments	35	64	149	74
Other current assets	18	57	15	74
Prepayments and advances	19	341	157	87
Cash with bank and in hand		376	714	334
		6,846	5,568	5,244
TOTAL ASSETS		20,295	17,820	16,514

Signed on behalf of the Group on 31 October 2006 by:

T. Dragičević

L. Geszti

The accompanying accounting policies and notes form an inseparable part of the Consolidated Balance Sheets.

INA GROUP CONSOLIDATED BALANCE SHEETS

31 December 2005, 2004 and 2003
(All amounts in HRK millions)

	Notes	2005	2004 Restated	2003 Restated
EQUITY AND LIABILITIES				
Capital and reserves				
Share capital	27	9,000	9,000	9,000
Revaluation reserve		(96)	(141)	—
Other reserves	28	2,390	2,349	2,391
Retained earnings/(Deficit)	29	483	(446)	(1,576)
Equity attributable to equity holder of the parent		11,777	10,762	9,815
Minority interests	30	6	6	6
TOTAL EQUITY		11,783	10,768	9,821
Non-current liabilities				
Long-term loans	23	748	842	1,125
Other non-current liabilities	24	162	178	219
Employee benefits obligation	26	71	56	53
Long-term provisions	25	1,759	1,443	1,179
		2,740	2,519	2,576
Current liabilities				
Bank loans and overdrafts	20	958	345	487
Current portion of long-term debt	20	476	462	449
Accounts payable	21	3,239	2,202	2,099
Taxes and contributions	21	592	1,062	782
Other short-term liabilities	21	184	143	146
Accruals and deferred income	22	167	106	140
Employee benefits obligation	26	7	11	9
Short-term provisions	25	149	202	5
		5,772	4,533	4,117
TOTAL LIABILITIES		8,512	7,052	6,693
TOTAL EQUITY AND LIABILITIES		20,295	17,820	16,514

Signed on behalf of the Group on 31 October 2006 by:

T. Dragičević

L. Geszti

The accompanying accounting policies and notes form an inseparable part of the Consolidated Balance Sheets.

INA — INDUSTRIJA NAFTE d.d. ZAGREB

INA GROUP CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Years ended 31 December 2005, 2004 and 2003
(All amounts in HRK millions)

	Attributable to equity holders of the parent						
	Share capital	Other reserves	Revaluation reserves	Retained profits/ (Accumulated deficit)	Total	Minority interest	Total Equity
Balance at 1 January 2003 (restated)	9,000	2,477	—	(2,170)	9,307	6	9,313
Exchange differences on translation of the financial statements of foreign operations	—	(86)	—	—	(86)	—	(86)
Net loss recognised directly in equity	—	(86)	—	—	(86)	—	(86)
Profit for the year	—	—	—	594	594	—	594
Total recognized income and expense for the period	—	(86)	—	594	508	—	508
Balance at 31 December 2003 (restated)	9,000	2,391	—	(1,576)	9,815	6	9,821
Gains/(losses) on available-for-sale investments	—	—	(141)	—	(141)	—	(141)
Exchange differences on translation of the financial statements of foreign operations	—	(42)	—	—	(42)	—	(42)
Net loss recognised directly in equity	—	(42)	(141)	—	(183)	—	(183)
Profit for the year	—	—	—	1,130	1,130	—	1,130
Total recognized income and expense for the period	—	(42)	(141)	1,130	947		947
Balance at 31 December 2004 (restated)	9,000	2,349	(141)	(446)	10,762	6	10,768
Adoption of revised International Financial Reporting Standards	—	—	—	44	44	—	44
Balance at 1 January 2005 revised	9,000	2,349	(141)	(402)	10,806	6	10,812
Gains/(losses) on available-for-sale investments	—	—	45	—	45	—	45
Exchange differences on translation of the financial statements of foreign operations	—	41	—	—	41	—	41
Net income recognised directly in equity	—	41	45	—	86	—	86
Profit for the year	—	—	—	885	885	—	885
Total recognized income and expense for the period	—	41	45	885	971		971
Balance at 31 December 2005	9,000	2,390	(96)	483	11,777	6	11,783

Signed on behalf of the Group on 31 October 2006 by:

T. Dragičević

L. Geszti

The accompanying accounting policies and notes form an inseparable part of the Consolidated Statements of Changes in Equity.

INA — INDUSTRIJA NAFTE d.d. ZAGREB

INA GROUP CONSOLIDATED STATEMENT OF CASH FLOW

Years ended 31 December 2005, 2004 and 2003
(All amounts in HRK millions)

	2005	2004 Restated	2003 Restated
Profit for the year before taxation	1,146	1,433	538
Adjustments for:			
Depreciation and amortisation	993	1,001	1,010
Impairment charges (net)	475	409	537
Foreign exchange loss/(gain)	42	(93)	(211)
Interest expense (net)	147	110	101
Other financial expenses/(income)	7	(1)	(176)
Share in the profit of associated companies	—	(23)	(15)
Change in provision for charges and risks and other non-cash items	(70)	(89)	(10)
Operating cash flow before working capital changes	2,740	2,747	1,774
(Increase)/decrease in inventories	(1,280)	61	(214)
Increase in receivables and prepayments	(631)	(57)	(257)
Increase in trade and other payables and	960	407	318
Taxes paid	(540)	(122)	(13)
Net cash inflow from operating activities	1,249	3,036	1,608
Cash flows used in investing activities			
Purchase of property, plant and equipment	(1,879)	(1,729)	(1,497)
Purchase of intangible assets	(329)	(561)	(662)
Proceeds from sale of non-current assets	9	37	9
Purchase of investments in associates and joint ventures and other companies	(20)	(9)	(5)
Dividends received from companies classified under available for sale and other companies	5	3	117
Proceeds from sale of investments (Crosco Noble Drilling)	222	—	—
Interest received	3	3	9
Investments and loans to third parties, net	9	18	(14)
Net cash (outflow) from investing activities	(1,980)	(2,238)	(2,043)
Cash flows from/(used in) financing activities			
Additional long-term borrowings	322	237	378
Repayment of long-term borrowings	(457)	(406)	(377)
Net drawdown /(repayment) of short term borrowings	612	(126)	40
Interest paid on long-term loans	(48)	(40)	(48)
Other long-term liabilities, net	(16)	(11)	(7)
Interest paid on short term loans and other financing charges	(59)	(40)	(27)
Net cash inflow/(outflow) inflow from financing activities	354	(386)	(41)
Net (decrease)/increase in cash and cash equivalents	(377)	412	(476)
At 1 January	714	334	831
Effect of foreign exchange rate changes	39	(32)	(21)
At 31 December	376	714	334

Signed on behalf of the Group on 31 October 2006 by:

T. Dragičević

L. Geszti

The accompanying accounting policies and notes form an inseparable part of the Consolidated Cash Flow Statements.

NOTES TO THE FINANCIAL STATEMENTS

For the years ended 31 December 2005, 2004 and 2003
(All amounts in HRK millions)

1. General

History and incorporation

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

By the end of that decade INA had expanded to include the Zagreb refinery, Trgovina (a domestic trade organisation), the OKI and DINA organic petrochemical operations and the Kutina fertiliser plant. In 1974, INA was transformed into a "complex organisation of associated work" or "s.o.u.r.", a step which also involved the formation of a number of separate companies. The organisation continued in this form until 1990 when, under the terms of Law 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 realase of these financial statements 25% plus one share is owned by MOL Rt (MOL), 68% is owned by the Republic of Croatia and the remaining 7% is owned by War veterans fund.

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 public tender, Croatian war veterans and members of their families were to receive up to 7% without consideration, up to 7% were to be sold to present and former employees of INA Group companies and the remaining shares were to be sold or exchanged depending on the prevailing market conditions. The remaining shares were to be exempted to the extent necessary for the compensation to the original, former owners. The Republic of Croatia will maintain ownership of over 25% plus one share of INA, which will be privatised once Croatia becomes a member of the European Union.

The sequence and progress of individual privatisation stages are determined by decisions of the Croatian Government, agreed to by the Croatian Parliament (official gazette *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 dated 26 August 2005 amending the initial decision).

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

The activities of the consultants are in progress. The primary purpose of the engagement is to propose to the Croatian Government the most favourable model for continuing the privatisation of INA.

(All amounts in HRK millions)

Note 1. General (continued)

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

Principal activities

Principal activities of INA and its subsidiaries (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 (16,147 at 31 December 2004, and 16,084 at 31 December 2003).

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

Directors and management

Supervisory Board

Until 28th October 2003

Slavko Linić	Chairman
Božidar Pankretić	
Damir Kuštrak	
Roman Nota	
Damir Vrhovnik	
Damir Pešut	

Note 1. General (continued)

From 28th October 2003

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

Management Board

Until 28th October 2003

Tomislav Dragičević	President of the Board
Željko Vrbanović	Member of the Board — Executive Director Business Segment Refining and Wholesale
Željko Belošić	Member of the Board — Executive Director Business Segment Exploration and Production
Milan Ujević	Member of the Board — Executive Director Finance and Controlling
Sanjin Kirigin	Member of the Board — Executive Director Business Segment Retail Services
Maja Brinar	Member of the Board for the Co-ordination of Privatisation

From 28th October 2003

Tomislav Dragičević	President of the Board
László Geszti	Vice-president of the Board — Executive Director Finance Function
Željko Belošić	Member of the Board — Executive Director Business Segment Exploration and Production
Milan Ujević	Member of the Board — Director Corporate Processes Function
Sanjin Kirigin	Member of the Board — Executive Director Business Segment Retail Services
Boris Čavrak	Member of the Board — Executive Director Business Segment Refining and Wholesale
Béla Cseh	Member of the Board — Director Corporate Services Function
Ivan Đerek	Corporate Secretary of INA d.d. in 2003

Supervisory Board

Until 10th March 2004

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

Note 1. General (continued)

From 11th March 2004

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

Management Board

Until 26th July 2004

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

From 27th July 2004

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
Tomislav Thür	Member of the Board — Director Corporate Processes Function
Josip Petrović	Member of the Board — Executive Director Business Segment Retail Services
Zorko Badanjak	Member of the Board — Executive Director Business Segment Refining and Wholesale
Béla Cseh	Member of the Board — Director Corporate Services Function
Ivan Đerek	Corporate Secretary of INA d.d. in 2004

Supervisory Board

until 2nd May 2005

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

Note 1. General (continued)

Supervisory Board

since 2nd 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

Note 1. General (continued)

Changes in 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	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 IFRS except for adaptation of new standard: IFRS 3 Business combination that is discussed 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 Group's financial statements are prepared under the historical cost convention, modified by the revaluation of certain assets and liabilities under conditions of hyperinflation in the period to 1993, and in accordance with International Financial Reporting Standards as published by the International Accounting Standards Board, and the Croatian law.

Basis of consolidated (INA Group) financial statements

The consolidated financial statements incorporate the financial statements of INA d.d. (INA Matica or the Company) and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee so as to obtain benefits from its activities.

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 except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. The Group had no acquisitions during the 2005, 2004 and 2003 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.

(All amounts in HRK millions)

Note 2. Accounting Policies (continued)

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.

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

Year 2003

Name of company	Activity	Shareholding
Oilfield services		
*Crosco Naftni Servisi d.o.o. Zagreb	Oilfield services	100%
Crosco International Limited, Guernsey	Oilfield services	100%
Nordic Shipping Ltd, Marshall Islands	Platform ownership	100%
Sea Horse Shipping Inc, Marshall Islands	Platform ownership	100%
Crosco Drilling & Well Services (UK) Limited	Financing	100%
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 (from 27 May 2003)	Security	100%
Production and trading		
*Maziva Zagreb d.o.o. Zagreb	Production and lubricants trading	100%
*Proplin d.o.o. Zagreb	Production and LPG trading	100%
Trading and finance		
*Interina d.o.o. Ljubljana, Slovenia	Foreign trading	100%
*INA BH d.d. Sarajevo, Bosnia and Herzegovina	Foreign trading	100%
*Interina d.o.o., Mostar, Bosnia and Herzegovina	Foreign trading	100%
*Interina d.o.o. Skopje, Macedonia (dormant)	Foreign trading	100%
*Interina Holding Ltd, London, UK	Foreign trading	100%
Inter Ina Ltd, London, UK.	Foreign trading	100%
Interina GmbH, Frankfurt, Germany (dormant)	Foreign trading	100%
*INA Hungary Kft., Budapest, Hungary	Foreign trading	100%
*FPC Ltd, London, UK	Foreign trading	100%
*Holdina (Guernsey) Ltd, Guernsey	Foreign trading	100%
Inter Ina (Guernsey) Ltd, Guernsey	Foreign trading	100%
Holdina d.o.o. Sarajevo, Bosnia and Herzegovina	Foreign trading	100%
Holdina (Cyprus) Ltd, Cyprus	Foreign trading	100%
Holdina (Ireland) Ltd, Ireland	Foreign trading	100%
*Commercina AG, Switzerland (in liquidation)	Foreign trading	100%
*Infocentar d.o.o. Zagreb	Information technology	100%
Adriagas S.r.l. Milan, Italy	Pipeline project company	100%
*INA Crna Gora d.o.o. Kotor	Foreign trading	100%
*INA CRO Petrol d.d. Zagreb	Trading	98%
*Petrol d.d. Rijeka	Trading	83%
*INA-Osijek — Petrol d.d.	Trading	76%

(All amounts in HRK millions)

Note 2. Accounting Policies (continued)

Name of company	Activity	Shareholding
Year 2004		
Oilfield services		
*Crosco Naftni Servisi d.o.o. Zagreb	Oilfield services	100%
Crosco International Limited, Guernsey	Oilfield services	100%
Nordic Shipping Ltd, Marshall Islands	Platform ownership	100%
Sea Horse Shipping Inc, Marshall Islands	Platform ownership	100%
Crosco Drilling & Well Services (UK) Limited	Financing	100%
Crosco International d.o.o. Slovenia (from 18 June 2004)	Oilfield services	100%
Oil exploration and production		
*INA Naftaplin International Exploration and Production Ltd, Guernsey	Oil exploration and production	100%
CorteCros d.o.o., Zagreb	Distribution of anti-corrosion products	60%
Tourism		
*ITR d.o.o. Zagreb	Car rental	100%
*Hostin d.o.o. Zagreb	Tourism	100%
Ancillary services		
*STSI integrirani tehnički servisi d.o.o. Zagreb	Technical services	100%
*Sinaco d.o.o. Sisak	Security	100%
Production and trading		
*Maziva Zagreb d.o.o. Zagreb	Production and lubricants trading	100%
*Proplin d.o.o. Zagreb	Production and LPG trading	100%
Trading and finance		
*Interina d.o.o. Ljubljana, Slovenia	Foreign trading	100%
*INA BH d.d. Sarajevo, Bosnia and Herzegovina	Foreign trading	100%
*Interina d.o.o., Mostar, Bosnia and Herzegovina	Foreign trading	100%
*Interina d.o.o. Skopje, Macedonia (dormant)	Foreign trading	100%
*Interina Holding Ltd, London, UK	Foreign trading	100%
Inter Ina Ltd, London, UK	Foreign trading	100%
Interina GmbH, Frankfurt, Germany (dormant)	Foreign trading	100%
*INA Hungary Kft., Budapest, Hungary	Foreign trading	100%
*FPC Ltd, London, UK	Foreign trading	100%
*Holdina (Guernsey) Ltd, Guernsey	Foreign trading	100%
Inter Ina (Guernsey) Ltd, Guernsey	Foreign trading	100%
Holdina d.o.o. Sarajevo, Bosnia and Herzegovina	Foreign trading	100%
Holdina (Cyprus) Ltd, Cyprus	Foreign trading	100%
Holdina (Ireland) Ltd, Ireland	Foreign trading	100%
*Commercina AG, Switzerland (in liquidation)	Foreign trading	100%
*INA d.o.o. Beograd, Serbia and Montenegro (from 12 August 2004)	Foreign trading	100%
*Infocentar d.o.o. Zagreb (dormant)	Information technology	100%
*Adriagas S.r.l. Milan, Italy	Pipeline project company	100%
*INA Crna Gora d.o.o. Kotor	Foreign trading	100%
*CROBENZ d.d. Zagreb (27 September 2004 INA Cropetrol changed the name of company into Crobenz)	Trading	98%
*Petrol d.d. Rijeka	Trading	83%
*INA-Osijek — Petrol d.d	Trading	76%

(All amounts in HRK millions)

Note 2. Accounting Policies (continued)

Name of company	Activity	Shareholding
Year 2005		
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%
Trading and finance		
*Interina d.o.o. Ljubljana, Slovenia	Foreign trading	100%
*INA BH d.d. Sarajevo, Bosnia and Herzegovina	Foreign trading	100%
*Interina d.o.o., Mostar, Bosnia and Herzegovina	Foreign trading	100%
*Interina d.o.o. Skopje, Macedonia (dormant)	Foreign trading	100%
*Interina Holding Ltd, London, UK	Foreign trading	100%
Inter Ina Ltd, London, UK	Foreign trading	100%
Interina GmbH, Frankfurt, Germany (in liquidation)	Foreign trading	100%
*INA Hungary Kft., Budapest, Hungary	Foreign trading	100%
*FPC Ltd, London, UK	Foreign trading	100%
*Holdina (Guernsey) Ltd, Guernsey	Foreign trading	100%
Inter Ina (Guernsey) Ltd, Guernsey	Foreign trading	100%
Holdina d.o.o. Sarajevo, Bosnia and Herzegovina	Foreign trading	100%
Holdina (Cyprus) Ltd, Cyprus	Foreign trading	100%
Holdina (Ireland) Ltd, Ireland	Foreign trading	100%
*Commercina AG, Switzerland (in liquidation)	Foreign trading	100%
*INA d.o.o. Beograd, Serbia and Montenegro (from 12 August 2004)	Foreign trading	100%
*Infocentar d.o.o. Zagreb (in liquidation)	Information technology	100%
*Adriagas S.r.l. Milan, Italy	Pipeline project company	100%
*INA Crna Gora d.o.o. Kotor	Foreign trading	100%
*INA Crobenz d.d. Zagreb	Trading	98%
*Petrol d.d. Rijeka	Trading	83%

(All amounts in HRK millions)

Note 2. Accounting Policies (continued)

Name of company	Activity	Shareholding
*INA-Osijek — Petrol d.d.	Trading	76%
*Polybit d.o.o. Rijeka (jointly controlled entity)	Oil production and trading	50%

Adoption of new and revised International Financial Reporting Standards

In 2005, 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 2005, 2004 and 2003 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.

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 related to Noble Crosco Drilling Limited 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 its 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 26).

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 (effective date annual periods beginning on or after 1 January 2006)*

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

Note 2. Accounting Policies (continued)

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

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

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

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

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

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

a) 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 considered preferable because it is consistent with the U.S. GAAP approach which is widely used by best practices of the industry. 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.

The change in accounting policy has been retroactively applied, and the affected prior-year balances as of 31 December 2004 and 2003 were restated. The effects of the change to the applicable years are presented in the table below.

b) 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 with exploration of oil wells were not properly capitalised. In 2005 the Company retroactively capitalized the oil and gas exploration costs related to those oil wells and thus the 2004 and 2003 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.

Note 2. Accounting Policies (continued)

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 and 2003 is presented in the tables below.

c) Balance Sheet — restatement of the opening balance

	Intangible assets HRK millions	Property, plant and equipment HRK millions	Retained earnings HRK millions
Balance at 1 January 2003 (originally recorded)	351	7,621	(3,431)
Recognition of oil and gas properties net of depreciation, impairment and taxes	18	1,474	1,261
Balance at 1 January 2003 (restated)	369	9,095	(2,170)
Net additions during 2003	535	570	
Depreciation and impairment of oil properties	—	(193)	
Correction of intangible assets for G&G works	(42)	—	
Correction of tangible assets for G&G works	—	(142)	
Total change in accounting policy	(42)	(335)	
Profit for the year (restated)	—	—	594
Balance at 1 January 2004	862	9,330	(1,576)
Net additions during 2004	514	904	—
Depreciation and impairment of oil properties	—	(209)	
Depreciation of assets subsequently put in use	—	(13)	
Correction of tangible assets for G&G works	(25)	5	
Total correction of prior period error	(25)	(217)	
Profit for the year (restated)	—	—	1,130
Balance at 31 December 2004	1,351	10,017	(446)
Adoption of revised International Financial Reporting Standards	—	—	44
Balance at 31 December 2004 (revised)	1,351	10,017	(402)
Profit for the period	—	—	885
Balance at 31 December 2005			483

Note 2. Accounting Policies (continued)

d) Statement of Income — restatement of the opening balance

Income statement Restatement of the opening balance	INA group HRK millions
Profit before taxes for the year ended 31 December 2003 (originally recorded)	899
Other cost of material — elimination of G&G costs	(211)
Depreciation of G&G	27
Impairment provision (Wells) — IAS 36	(12)
Depreciation of oil wells	(181)
Taxes adjusted by the effect of the G&G works	37
Taxes adjusted by the effect of the oil well revaluation	35
Net profit for the year ended 31 December 2003 (as restated)	594
Profit before taxes for the year ended 31 December 2004 (originally recorded)	1,366
Other cost of material — elimination of G&G costs	(24)
Depreciation of G&G	5
Impairment provision (Wells) — IAS 36	(107)
Depreciation of oil wells	(102)
Depreciation of construction in progress subsequently put to use	(13)
Taxes adjusted by the effect of the G&G works	4
Taxes adjusted by the effect of the oil well revaluation	(1)
Taxes adjusted by subsequently activated investments	2
Net profit for the year ended 31 December 2004 (as restated)	1,130

(All amounts in HRK millions)

Note 2. Accounting Policies (continued)

e) Analysis of the restatement for the period ending 31 December 2003

	Originally reported as of 31 December 2003	2002 wells <1>	2003 wells depreciation <2>	2003 wells IAS 36 <3>	G&G costs <4>	Provisions <5>	Derivatives <6>	AFS reclassification <7>	Share of the profits reclassification <8>	Reclassification of other current assets <9>	Current and deferred taxes <10>	Restated amounts as of 31 December 2003
Assets												
Non-current assets												
Intangible assets	886	18	—	—	(42)	—	—	—	—	—	—	862
Property, plant and equipment	8,191	1,474	(181)	(12)	(142)	—	—	—	—	—	—	9,330
Investments in associates and joint ventures	143	—	—	—	—	—	—	—	—	—	—	143
Investments in other companies	409	—	—	—	—	—	—	(321)	—	—	—	88
Long-term receivables	238	—	—	—	—	—	—	—	—	—	—	238
Derivative financial instruments	—	—	—	—	—	—	201	—	—	—	—	201
Deferred tax	61	—	—	—	—	—	—	—	—	—	26	87
Available-for-sale assets	—	—	—	—	—	—	—	321	—	—	—	321
	9,928	1,492	(181)	(12)	(184)	—	201	—	—	—	26	11,270
Current assets												
Inventories	2,500	—	—	—	—	—	—	—	—	—	—	2,500
Trade receivables , net	1,938	—	—	—	—	—	—	—	—	—	—	1,938
Other receivables	237	—	—	—	—	—	—	—	—	—	—	237
Derivative financial instruments/ (previously under caption Investment)	349	—	—	—	—	—	(201)	—	—	(74)	—	74
Other current assets	—	—	—	—	—	—	—	—	—	74	—	74
Prepayments and advances	87	—	—	—	—	—	—	—	—	—	—	87
Cash with bank and in hand	334	—	—	—	—	—	—	—	—	—	—	334
	5,445	—	—	—	—	—	(201)	—	—	—	—	5,244
TOTAL ASSETS	15,373	1,492	(181)	(12)	(184)	—	—	—	—	—	26	16,514

(All amounts in HRK millions)

Note 2. Accounting Policies (continued)

e) Analysis of the restatement for the period ending 31 December 2003 (continued)

	Originally reported as of 31 December 2003	2002 wells <1>	2003 wells depreciation <2>	2003 wells IAS 36 <3>	G&G costs <4>	Provisions <5>	Derivatives <6>	AFS reclassification <7>	Share of the profits reclassification <8>	Reclassification of other current assets <9>	Current and deferred taxes <10>	Restated amounts as of 31 December 2003
EQUITY AND LIABILITIES												
Capital and reserves												
Share capital	9,000	—	—	—	—	—	—	—	—	—	—	9,000
Other reserves	2,391	—	—	—	—	—	—	—	—	—	—	2,391
Profit for the period	899	—	(181)	(12)	(184)	—	—	—	—	—	72	594
Retained earnings/(Deficit)	(3,431)	1,492	—	—	—	—	—	—	—	—	(231)	(2,170)
	8,859	1,492	(181)	(12)	(184)	—	—	—	—	—	(159)	9,815
Minority interests	6											6
TOTAL EQUITY	8,865	1,492	(181)	(12)	(184)	—	—	—	—	—	(159)	9,821
Non-current liabilities												
Long-term loans	1,125	—	—	—	—	—	—	—	—	—	—	1,125
Other non-current liabilities	219	—	—	—	—	—	—	—	—	—	—	219
Employee benefits obligation	—	—	—	—	—	53	—	—	—	—	—	53
Long-term provisions	965	—	—	—	—	214	—	—	—	—	—	1,179
	2,309	—	—	—	—	267	—	—	—	—	—	2,576
Current liabilities												
Bank loans and overdrafts	487	—	—	—	—	—	—	—	—	—	—	487
Current portion of long-term debt	449	—	—	—	—	—	—	—	—	—	—	449
Accounts payable	2,099	—	—	—	—	—	—	—	—	—	—	2,099
Taxes and contributions	597	—	—	—	—	—	—	—	—	—	185	782
Other short term liabilities	146	—	—	—	—	—	—	—	—	—	—	146
Accruals and deferred income	421	—	—	—	—	(281)	—	—	—	—	—	140
Employee benefits obligation	—	—	—	—	—	9	—	—	—	—	—	9
Short-term provisions	—	—	—	—	—	5	—	—	—	—	—	5
	4,199	—	—	—	—	(267)	—	—	—	—	185	4,117
TOTAL LIABLITIES	6,508	—	—	—	—	—	—	—	—	—	185	6,693
TOTAL EQUITY AND LIABILITIES	15,373	1,492	(181)	(12)	(184)	—	—	—	—	—	26	16,514

(All amounts in HRK millions)

Note 2. Accounting Policies (continued)

e) Analysis of the restatement for the period ending 31 December 2003 (continued)

	Originally reported as of 31 December 2003	2002 wells <1>	2003 wells depreciation <2>	2003 wells IAS 36 <3>	G&G costs <4>	Provisions <5>	Derivatives <6>	AFS reclassification <7>	Share of the profits reclassification <8>	Reclassification of other current assets <9>	Current and deferred taxes <10>	Restated amounts as of 31 December 2003
Sales revenue												
(a) Domestic	10,660	—	—	—	—	—	—	—	—	—	—	10,660
(b) Exports	4,685	—	—	—	—	—	—	—	—	—	—	4,685
Total sales revenue	15,345	—	—	—	—	—	—	—	—	—	—	15,345
Income from own consumption of products and services	616	—	—	—	—	—	—	—	—	—	—	616
Other operating income	495	—	—	—	—	—	—	—	—	—	—	495
Total operating income	16,456	—	—	—	—	—	—	—	—	—	—	16,456
Changes in inventories of finished products and work in progress	(94)	—	—	—	—	—	—	—	—	—	—	(94)
Cost of raw materials and consumables	(7,336)	—	—	—	—	—	—	—	—	—	—	(7,336)
Depreciation and amortization	(856)	—	(181)	—	27	—	—	—	—	—	—	(1,010)
Other material costs	(1,822)	—	—	—	(211)	—	—	—	—	—	—	(2,033)
Service costs	(972)	—	—	—	—	—	—	—	—	—	—	(972)
Staff costs	(1,899)	—	—	—	—	—	—	—	—	—	—	(1,899)
Cost of other goods sold	(2,366)	—	—	—	—	—	—	—	—	—	—	(2,366)
Impairment and charges (net)	(510)	—	—	(12)	—	—	—	—	(15)	—	—	(537)
Provision for charges and risks (net)	(14)	—	—	—	—	—	—	—	—	—	—	(14)
Operating expenses	(15,869)	—	(181)	(12)	(184)	—	—	—	(15)	—	—	(16,261)
Profit from operations	587	—	(181)	(12)	(184)	—	—	—	(15)	—	—	195
Share in the profit of associated companies	—	—	—	—	—	—	—	—	15	—	—	15
Finance revenue	783	—	—	—	—	—	—	—	—	—	—	783
Finance costs	(455)	—	—	—	—	—	—	—	—	—	—	(455)
Net profit from financial activities	328	—	—	—	—	—	—	—	—	—	—	328
Profit for the year before taxation	915	—	(181)	(12)	(184)	—	—	—	—	—	—	538
Current taxes	(77)	—	—	—	—	—	—	—	—	—	73	(4)
Deferred taxes	61	—	—	—	—	—	—	—	—	—	(1)	60
Profit for the year	899	—	(181)	(12)	(184)	—	—	—	—	—	72	594

2. Accounting Policies (continued)

e) Analysis of the restatement for the period ending 31 December 2003 (continued)

Until 1 January 2003, certain oil exploration costs were not capitalized but instead were expensed in the year incurred. As a result, the costs associated with exploration of oil wells were not properly capitalized. In 2005 the Company retroactively recorded 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 and 2003 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.

<**1**> The net effect of the capitalized costs and accumulated depreciation as well as impairment charge as of 31 December 2002 amounted to HRK 1,474 million and HRK 18 million for property, plant and equipment and intangible assets respectively, resulting in total adjusting entry of HRK 1,492 million in retained earnings for the period ended 31 December 2003.

<**2**> HRK 181 million of depreciation expense for oil exploration costs capitalised were recorded as an adjusting entry for 2003.

<**3**> HRK 12 million of impairment charges for oil exploration costs capitalised were recorded as an adjusting entry for 2003.

<**4**> During 2005 the Company changed its accounting policy applicable to geological and geophysical costs. In prior periods all such costs were capitalized where the costs are now charged to the period in which they are incurred. This change in accounting policy is considered preferable as is widely used by best practices of the industry, which follows the conservative approach. Until 31 December 2004 all geological and geophysical costs were initially capitalized as intangible oil and gas assets pending the determination of the commercial viability of the relevant oil and gas properties.

Following the change in the accounting policy, property, plant and equipment were corrected by net amount of HRK 142 million and intangible assets of HRK 42 million. HRK 27 million was reversed from depreciation charge previously accounted for and HRK 211 million of costs capitalised in 2003 was expensed.

<**5**> For the better presentation purposes the Company has restated the presentation of employee benefits obligations and other provisions. Previously all such obligations were presented under the caption of "Accrued expenses and deferred income". Following the requirements of IAS-1 where all material obligations should be presented on the face of the balance sheet with the spread between long and short term portion, the Company has restated the presentation of the above mentioned obligations

<**6**> Taking into account the substance of the derivative financial instruments and requirements of the IAS 1 to separately present long and short portion of the instruments, the Company has restated to balances to present separately a long portion arising from derivative instruments

<**7**> Taking into account requirements of the IAS-1 to present separately on the face of the balance sheet the investment available for sale, the Company reclassified the respective investment.

<**8**> For better presentation purposes the Company has reclassified the share of the profits in joint ventures and associated companies, previously recorded in the line "Impairment and charges (net)" and as such previously reducing the total value of the impairment charges.

<**9**> For better presentation purposes the company has reclassified other current assets previously recorded under caption of "Investment."

<**10**> The changes in the accounting polices for G&G and oil exploration costs had also impact on the taxes, both deferred and current recorded in the period ending 31 December 2003 and prior periods. As such the Company adjusted tax balances (in the Statement of Income and the Balance Sheet) as presented in the adjustment 10.

(All amounts in HRK millions)

2. Accounting Policies (continued)

f) Analysis of the restatement for the period ending 31 December 2004

	Originally reported as of 31 December 2004	2002 wells <1>	2003 wells depreciation <2>	2003 wells IAS 36 <3>	2003 G&G costs <4>	2004 wells depreciation <5>	2003 wells IAS 36 <6>	2004 G&G costs <7>	Depreciation on activated assets <8>	Reclassification of provisions <9>	Reclassification of derivatives <10>
Assets											
Non-current assets											
Intangible assets	1,399	18	—	—	(42)	—	—	(24)	—	—	—
Property, plant and equipment	9,095	1,474	(181)	(12)	(142)	(102)	(107)	5	(13)	—	—
Investments in associates and joint ventures	153	—	—	—	—	—	—	—	—	—	—
Investment in other companies	262	—	—	—	—	—	—	—	—	—	—
Long-term receivables	218	—	—	—	—	—	—	—	—	—	—
Derivative financial instruments	—	—	—	—	—	—	—	—	—	—	135
Deferred tax	93	—	—	—	—	—	—	—	—	—	—
Available-for-sale assets	—	—	—	—	—	—	—	—	—	—	—
	11,220	1,492	(181)	(12)	(184)	(102)	(107)	(19)	(13)	—	135
Current assets											
Inventories	2,362	—	—	—	—	—	—	—	—	—	—
Trade receivables, net	1,983	—	—	—	—	—	—	—	—	—	—
Other receivables	188	—	—	—	—	—	—	—	—	—	—
Derivative financial instruments/ (previously under caption Investment)	328	—	—	—	—	—	—	—	—	—	(151)
Other current assets	—	—	—	—	—	—	—	—	—	—	
Prepayments and advances	157	—	—	—	—	—	—	—	—	—	—
Cash with bank and in hand	714	—	—	—	—	—	—	—	—	—	—
	5,732	—	—	—	—	—	—	—	—	—	(151)
TOTAL ASSETS	16,952	1,492	(181)	(12)	(184)	(102)	(107)	(19)	(13)	—	(16)

(All amounts in HRK millions)

2. Accounting Policies (continued)

f) Analysis of the restatement for the period ending 31 December 2004 (continued)

	Reclassification of other current assets <11>	AFS reclassification <12>	Share of the profits reclassification <13>	Current and deferred taxes adjustment <14>	Reclassification deferred tax as a result of restatement <15>	Inventory reclassification, current portion of loans recognition <16>	Reclassification of other and tax liabilities <17>	Reclassification of other income and costs <18>	Restated amounts as of 31 December 2004
Assets									
Non-current assets									
Intangible assets	—	—	—	—	—	—	—	—	1,351
Property, plant and equipment	—	—	—	—	—	—	—	—	10,017
Investments in associates and joint ventures	—	(9)	—	—	—	—	—	—	144
Investment in other companies	—	(203)	—	—	—	—	—	—	59
Long-term receivables	—	—	—	—	—	—	—	—	218
Derivative financial instruments	—	—	—	—	—	—	—	—	135
Deferred tax	—	—	—	24	—	—	—	—	117
Available-for-sale assets	—	211	—	—	—	—	—	—	211
	—	(1)	—	24	—	—	—	—	12,252
Current assets									
Inventories	—	—	—	—	—	(12)	—	—	2,350
Trade receivables, net	—	—	—	—	—		—	—	1,983
Other receivables	—	—	—	—	—	12	—	—	200
Derivative financial instruments / (previously under caption Investment)	(28)	—	—	—	—	—	—	—	149
Other current assets	15	—	—	—	—	—	—	—	15
Prepayments and advances	—	—	—	—	—	—	—	—	157
Cash with bank and in hand	—	—	—	—	—	—	—	—	714
	(13)	—	—	—	—	—	—	—	5,568
TOTAL ASSETS	(13)	(1)	—	24	—	—	—	—	17,820

(All amounts in HRK millions)

2. Accounting Policies (continued)

f) Analysis of the restatement for the period ending 31 December 2004 (continued)

	Originally reported as of 31 December 2004	2002 wells <1>	2003 wells depreciation <2>	2003 wells IAS 36 <3>	2003 G&G costs <4>	2004 wells depreciation <5>	2003 wells IAS 36 <6>	2004 G&G costs <7>	Depreciation on activated assets <8>	Reclassification of derivatives <9>	Reclassification of provisions <10>
EQUITY AND LIABILITIES											
Capital and reserves											
Share capital	9,000	—	—	—	—	—	—	—	—	—	—
Revaluation reserves	(141)	—	—	—	—	—	—	—	—	—	—
Other reserves	2,349	—	—	—	—	—	—	—	—	—	—
Profit for the period	1,366	—	—	—	—	(102)	(107)	(19)	(13)	—	—
Retained earnings/(Deficit)	(2,532)	1,492	(181)	(12)	(184)	—	—	—	—	—	—
	10,042	1,492	(181)	(12)	(184)	(102)	(107)	(19)	(13)	—	—
Minority interests	6	—	—	—	—	—	—	—	—	—	—
TOTAL EQUITY	10,048	1,492	(181)	(12)	(184)	(102)	(107)	(19)	(13)	—	—
Non-current liabilities											
Long-term loans	842	—	—	—	—	—	—	—	—	—	—
Other non-current liabilities	178	—	—	—	—	—	—	—	—	—	—
Employee benefits obligation	—	—	—	—	—	—	—	—	—	56	—
Long-term provisions	1,169	—	—	—	—	—	—	—	—	274	—
	2,189	—	—	—	—	—	—	—	—	330	—

(All amounts in HRK millions)

2. Accounting Policies (continued)

f) Analysis of the restatement for the period ending 31 December 2004 (continued)

	Reclassification of other current assets <11>	AFS reclassification <12>	Share of the profits reclassification <13>	Current and deferred taxes adjustment <14>	Reclassification of deferred tax as a result of restatement <15>	Inventory reclassification, current portion of loans recognition <16>	Reclassification of other and tax liabilities <17>	Reclassification of other income and costs <18>	Restated amounts as of 31 December 2004
EQUITY AND LIABILITIES									
Capital and reserves									
Share capital	—	—	—	—	—	—	—	—	9,000
Revaluation reserves	—	—	—	—	—	—	—	—	(141)
Other reserves	—	—	—	—	—	—	—	—	2,349
Profit for the period	—	—	—	5	—	—	—	—	1,130
Retained earnings/(Deficit)	—	—	—	(159)	—	—	—	—	(1,576)
	—	—	—	(154)	—	—	—	—	10,762
Minority interests	—	—	—	—	—	—	—	—	6
TOTAL EQUITY	—	—	—	(154)	—	—	—	—	10,768
Non-current liabilities									
Long-term loans	—	—	—	—	—	—	—	—	842
Other non-current liabilities	—	—	—	—	—	—	—	—	178
Employee benefits obligation	—	—	—	—	—	—	—	—	56
Long-term provisions	—	—	—	—	—	—	—	—	1,443
	—	—	—	—	—	—	—	—	2,519

(All amounts in HRK millions)

2. Accounting Policies (continued)

f) Analysis of the restatement for the period ending 31 December 2004 (continued)

	Originally reported as of 31 December 2004	2002 wells <1>	2003 wells depreciation <2>	2003 wells IAS 36 <3>	2003 G&G costs <4>	2004 wells depreciation <5>	2003 wells IAS 36 <6>	2004 G&G costs <7>	Depreciation on activated assets <8>	Reclassification of provisions <9>	Reclassification of derivatives <10>
Current liabilities											
Bank loans and overdrafts	836	—	—	—	—	—	—	—	—	—	(16)
Current portion of long-term debt	—	—	—	—	—	—	—	—	—	—	—
Accounts payable	2,202	—	—	—	—	—	—	—	—	—	—
Taxes and contributions	875	—	—	—	—	—	—	—	—	—	—
Other short term liabilities	153	—	—	—	—	—	—	—	—	—	—
Accruals and deferred income	649	—	—	—	—	—	—	—	—	(543)	—
Employee benefits obligation	—	—	—	—	—	—	—	—	—	11	—
Short-term provisions	—	—	—	—	—	—	—	—	—	202	—
	4,715	—		—		—		—	—	(330)	(16)
TOTAL LIABILITIES	6,904	—	—	—	—	—	—	—	—	—	(16)
TOTAL EQUITY AND LIABILITIES	16,952	1,492	(181)	(12)	(184)	(102)	(107)	(19)	(13)	—	(16)

(All amounts in HRK millions)

2. Accounting Policies (continued)

f) Analysis of the restatement for the period ending 31 December 2004 (continued)

	Reclassification of other current assets <11>	AFS reclassification <12>	Share of the profits reclassification <13>	Current and deferred taxes adjustment <14>	Reclassification of deferred tax as a result of restatement <15>	Inventory reclassification, current portion of loans recognition <16>	Reclassification of other and tax liabilities <17>	Reclassification of other income and costs <18>	Restated amounts as of 31 December 2004
Current liabilities									
Bank loans and overdrafts	(13)	—	—	—	—	(462)	—	—	345
Current portion of long-term debt	—	—	—	—	—	462	—	—	462
Accounts payable	—	—	—	—	—	—	—	—	2,202
Taxes and contributions	—	(1)	—	178	—	—	10	—	1,062
Other short term liabilities	—	—	—	—	—	—	(10)	—	143
Accruals and deferred income	—	—	—	—	—	—	—	—	106
Employee benefits obligation	—	—	—	—	—	—	—	—	11
Short-term provisions	—	—	—	—	—	—	—	—	202
	(13)	(1)	—	178	—	—	—	—	4,533
TOTAL LIABILITIES	(13)	(1)	—	178	—	—	—	—	7,052
TOTAL EQUITY AND LIABILITIES	(13)	(1)	—	24	—	—	—	—	17,820

(All amounts in HRK millions)

2. Accounting Policies (continued)

f) Analysis of the restatement for the period ending 31 December 2004 (continued)

	Originally reported	2002 wells <1>	2003 wells depreciation <2>	2003 wells IAS 36 <3>	2003 G&G costs <4>	2004 wells depreciation <5>	2003 wells IAS 36 <6>	2004 G&G costs <7>	Depreciation on activated assets <8>	Reclassification of provisions <9>	Reclassification of derivatives <10>
Profit and loss											
Sales revenue											
a) Domestic	11,766	—	—	—	—	—	—	—	—	—	—
b) Exports	6,222	—	—	—	—	—	—	—	—	—	—
Total sales revenue	17,988	—	—	—	—	—	—	—	—	—	—
Income from own consumption of products and services											
Other operating income	923	—	—	—	—	—	—	—	—	—	—
Total operating income	18,911	—	—	—	—	—	—	—	—	—	—
Changes in inventories of finished products and work in progress	100	—	—	—	—	—	—	—	—	—	—
Cost of raw materials and consumables	(8,293)	—	—	—	—	—	—	—	—	—	—
Depreciation and amortization	(891)	—	—	—	—	(102)	—	5	(13)	—	—
Other material costs	(2,004)	—	—	—	—	—	—	(24)	—	—	—
Service costs	(955)	—	—	—	—	—	—	—	—	—	—
Staff costs	(1,969)	—	—	—	—	—	—	—	—	—	—
Cost of other goods sold	(2,794)	—	—	—	—	—	—	—	—	—	—
Impairment and charges (net)	(266)	—	—	—	—	—	(107)	—	—	—	—
Provision for charges and risks (net)	(152)	—	—	—	—	—	—	—	—	—	—
Operating expenses	(17,224)	—	—	—	—	(102)	(107)	(19)	(13)	—	—
Profit from operations	1,687	—	—	—	—	(102)	(107)	(19)	(13)	—	—

(All amounts in HRK millions)

2. Accounting Policies (continued)

f) Analysis of the restatement for the period ending 31 December 2004 (continued)

	Reclassification of other current assets <11>	AFS reclassification <12>	Share of the profits reclassification <13>	Current and deferred taxes adjustment <14>	Reclassification of deferred tax as a result of restatement <15>	Inventory reclassification, current portion of loans recognition <16>	Reclassification of other and tax liabilities <17>	Reclassification of other income and costs <18>	Restated amounts
Profit and loss									
Sales revenue									
a) Domestic	—	—	—	—	—	—	—	—	11,766
b) Exports	—	—	—	—	—	—	—	—	6,222
Total sales revenue	—	—	—	—	—	—	—	—	17,988
Income from own consumption of products and services								447	447
Other operating income	—	—	—	—	—	—	—	(434)	489
Total operating income	—	—	—	—	—	—	—	13	18,924
Changes in inventories of finished products and work in progress	—	—	—	—	—	—	—	—	100
Cost of raw materials and consumables	—	—	—	—	—	—	—	—	(8,293)
Depreciation and amortization	—	—	—	—	—	—	—	—	(1,001)
Other material costs	—	—	—	—	—	—	—	—	(2,028)
Service costs	—	—	—	—	—	—	—	—	(955)
Staff costs	—	—	—	—	—	—	—	—	(1,969)
Cost of other goods sold	—	—	—	—	—	—	—	—	(2,794)
Impairment and charges (net)	—	—	(23)	—	—	—	—	(13)	(409)
Provision for charges and risks (net)	—	—	—	—	—	—	—	—	(152)
Operating expenses	—	—	(23)	—	—	—	—	(13)	(17,501)
Profit from operations	—	—	(23)	—	—	—	—	—	1,423

(All amounts in HRK millions)

2. Accounting Policies (continued)

f) Analysis of the restatement for the period ending 31 December 2004 (continued)

	Originally Reported as of 31 December 2004	2002 wells <1>	2003 wells depreciation <2>	2003 wells IAS 36 <3>	2003 G&G costs <4>	2004 wells depreciation <5>	2003 wells IAS 36 <6>	2004 G&G costs <7>	Depreciation on activated assets <8>	Reclassification of provisions <9>	Reclassification of derivatives <10>
Share in the profit of associated companies	—	—	—	—	—	—	—	—	—	—	—
Finance revenue	354	—	—	—	—	—	—	—	—	—	—
Finance costs	(367)	—	—	—	—	—	—	—	—	—	—
Net (loss)/profit from financial activities	(13)	—	—	—	—	—	—	—	—	—	—
Profit for the year before taxation	1,674	—	—	—	—	(102)	(107)	(19)	(13)	—	—
Current taxes	(340)	—	—	—	—	—	—	—	—	—	—
Deferred taxes	32	—	—	—	—	—	—	—	—	—	—
Profit for the year	1,366	—	—	—	—	(102)	(107)	(19)	(13)	—	—

(All amounts in HRK millions)

2. Accounting Policies (continued)

f) Analysis of the restatement for the period ending 31 December 2004 (continued)

	Reclassification of other current assets <11>	AFS reclassification <12>	Share of the profits reclassification <13>	Current and deferred taxes adjustment <14>	Reclassification deferred tax as a result of restatement <15>	Inventory reclassification, current portion of loans recognition <16>	Reclassification of other and tax liabilities <17>	Reclassification of other income and costs <18>	Restated amounts as of 31 December 2004
Share in the profit of associated companies	—	—	23	—	—	—	—	—	23
Finance revenue	—	—	—	—	—	—	—	—	354
Finance costs	—	—	—	—	—	—	—	—	(367)
Net (loss) / profit from financial activities	—	—	—	—	—	—	—	—	(13)
Profit for the year before taxation	—	—	—	—	—	—	—	—	1,433
Current taxes	—	—	—	5	22	—	—	—	(313)
Deferred taxes	—	—	—	—	(22)	—	—	—	10
Profit for the year	—	—	—	5	—	—	—	—	1,130

Note 2. Accounting Policies (continued)

f) Analysis of the restatement for the period ending 31 December 2004 (continued)

<**1**> **—** <**4**> The adjustments refer to the period ending 31 December 2003 as described in point e) <1> — <4>. However all the above mentioned adjustments affected Retained Earnings.

<**5**> HRK 102 million of depreciation for oil exploration costs capitalised was recorded as an adjusting entry for 2004.

<**6**> HRK 107 million of impairment charges for oil exploration costs capitalised was recorded as an adjusting entry for 2004.

<**7**> As a result of a change in accounting policy in respect of G&G costs property, plant and equipment was adjusted by depreciation accounted for in the amount o HRK 5 million and intangibles assets by HRK 24 million expensing the capitalised costs recorded in the period.

<**8**> In 2004 the Company recognised depreciation charge for assets that were in use however still recorded as Assets under Construction. The error was discovered in 2005 and adjusted retrospectively with the effect recorded in 2004.

<**9**> For the better presentation purposes the Company has restated to presentation of employee benefits obligations and other provisions. Previously all such obligations were presented under the caption of "Accrued expenses and deferred income". Following the requirements of IAS 1 where all material obligations should be presented on the face of the balance sheet with the spread between long and short term portion, the Company has restated the presentation of the mentioned obligations.

<**10**> Taking into account the substance of the derivative financial instruments and requirements of the IAS 1 to separately present long and short portion of the instruments, the Company has restated to balances to present separately a long portion arising from derivative instruments

<**11**> For better presentation purposes the Company has reclassified other current assets previously recorded under caption of "Investment", and netted the amounts relating to derivatives recorded previously on liabilities side, following the requirements of IAS 1.

<**12**> Taking into account requirements of the IAS 1 to present separately on the face of the balance sheet the investment available for sale, the Company reclassified the respective investment.

<**13**> For better presentation purposes the company has reclassified the share of the profits in joint ventures and associated companies, previously recorded in the line "Impairment and charges (net)" and as such previously reducing the total value of the impairment charges.

<**14**> **—** <**15**> The changes in the accounting polices for G&G and oil exploration costs had also impact on the taxes, both deferred and current recorded in the period ending in period ending 31 December 2004 and prior periods. As such the Group adjusted tax balances (in the Statement of Income and the Balance Sheet) as presented in the adjustment 14 and 15.

<**16**> As in 2005 the classification of items in the financial statements was amended, following the requirements of IAS 1 the Company changed also the comparative presentation for 2004, reclassifying HRK 12 million from "Inventory" into "Accounts Receivable".

<**17**> As in 2005 the classification of items in the financial statements was amended, following the requirements of IAS 1 the Company changed also the comparative presentation for 2004, reclassifying HRK 10 million from "Other short term liabilities" into "Taxes and contributions".

<**18**> In original Financial Statements the distinguish between Other operating income and Income from own consumption of products and services was not performed. In 2005 for the better presentation of Financial Statement purposes the classification was amended and as such the 2004 presentation was restated. At the same time the Company excluded HRK 13 million relating to originally recorded impairment charge for wells from other operating income (which in the original financial statements had negative impact on income) and classified the amount in "Impairment and charges (net)" line, where all impairment charges were recorded resulting from changes in accounting policies discussed in adjustment 6.

Note 2. Accounting Policies (continued)

f) Analysis of the restatement for the period ending 31 December 2004 (continued)

Reporting currency

The 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; and 31 December 2003: 7.65 Kuna per 1 Euro and 6.12 Kuna per 1 United States dollar).

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. 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 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 are included within property, plant and equipment — oil and gas properties.

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.

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

- *Fields under development*

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

Note 2. Accounting Policies (continued)

f) Analysis of the restatement for the period ending 31 December 2004 (continued)

- *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 property, plant and equipment 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	5-10 years

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

Expenditures incurred after property, plant and equipment 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*

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

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.

The net selling price is the amount obtainable from the sale of an asset in an arm’s length transaction less the cost of disposal, while value in use is the present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset of estimated future cash flows expected to

Note 2. Accounting Policies (continued)

f) Analysis of the restatement for the period ending 31 December 2004 (continued)

arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the relevant cash-generating unit.

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

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

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

Finance and operating leases

The Company has no financial lease arrangements. No significant new operating lease agreements were entered into during 2005, 2004 and 2003. 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.

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 or 95% of estimated average sales price, which approximates the net recoverable amount.

— Semi-finished products and work in progress are valued at the lower of estimated cost of production and net realisable value based on 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.

Note 2. Accounting Policies (continued)

f) Analysis of the restatement for the period ending 31 December 2004 (continued)

— 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 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 as finance cost 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 changes in equity.

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

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

Taxation

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

Note 2. Accounting Policies (continued)

f) Analysis of the restatement for the period ending 31 December 2004 (continued)

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. Up to 31 December 2004 the Group applied a provision against receivables older than 60 days, from 2005 year 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.

Note 2. Accounting Policies (continued)

f) Analysis of the restatement for the period ending 31 December 2004 (continued)

- *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 liabilities and equity instruments*

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.

- *Derivative financial instruments*

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 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

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

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,

Note 2. Accounting Policies (continued)

f) Analysis of the restatement for the period ending 31 December 2004 (continued)

determined using the estimated risk free interest rate as the discount rate. Where discounting is used, the reversal of such discounting in each year is recognised as a financial expense and the carrying amount of the provision increases in each year to reflect the passage of time.

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

Provisions 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 Financial Reporting 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.

Regulated prices are determined with reference to the Mediterranean market price parity adjusted for import and logistic charges, regulatory fees and margin.

Interest is recognised on a accrual basis.

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

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

3. Revenue

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

Revenue information — business segment

(All amounts in HRK millions)

3. Revenue (continued)

	2005	2004	2003
Exploration and production	4,240	3,874	3,721
Refining and wholesale	11,798	9,720	6,610
Retail	4,940	4,310	4,957
Corporate and other	92	84	57
	21,070	17,988	15,345

Revenue information — geographical

	2005	2004	2003
Republic of Croatia	13,690	11,766	10,660
Former Republic of Yugoslavia	2,909	3,077	1,789
Within the European Union	1,559	1,378	1,361
Rest of the world	2,912	1,767	1,535
	21,070	17,988	15,345

Slovenia is member of European Union

4. Depreciation and Amortisation

	2005	2004	2003
Amortisation of intangible assets (note 10)	18	15	11
Depreciation of property, plant and equipment (note 11b)	975	986	999
	993	1,001	1,010

5. Staff Costs

	2005	2004	2003
Net payroll	1,120	1,011	969
Contributions for pensions and health insurance	759	671	626
Other payroll related costs	378	287	304
	2,257	1,969	1,899

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

	2005 Number	2004 Number	2003 Number
Production	6,345	6,475	6,474
Distribution	4,490	4,480	4,372
Administration	4,284	4,292	4,265
Sales and marketing	470	465	457
Research and development	400	435	516
	15,989	16,147	16,084

(All amounts in HRK millions)

6. Finance Revenue

	2005	2004	2003
Foreign exchange gains	127	300	542
Other interest income	41	31	41
Dividends	5	11	117
Gains on embedded derivatives	5	9	74
Interest from financial assets	3	3	9
	181	354	783

7. Finance Costs

	2005	2004	2003
Foreign exchange losses	310	204	289
Interest payable on long-term loans	48	40	48
Other interest payable	143	104	103
Other financial expenses	17	19	15
	518	367	455

8. Taxation

	2005	2004	2003
Current tax expense	236	313	4
Deferred tax (benefit) relating to origination and reversal of temporary differences	25	(10)	(60)
Income tax expense for the year	261	303	(56)

Domestic income tax rate is calculated at 20 per cent. (2004, 2003: 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 Group is subject to corporate income tax on its taxable profits in Croatia.

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

	2005	%	2004	%	2003	%
Profit before taxation	1,146	100	1,433	100	538	100
Tax at the applicable tax rate (20%)	229	20	288	20	108	20
Tax effect of permanent differences	7	1	25	2	8	1
Utilisation / (reversal) of unrecognised deferred tax assets	25	2	(10)	(1)	(172)	(32)
Current tax expense / (benefit)	261	23	303	21	(56)	(11)

(All amounts in HRK millions)

8. Taxation (continued)

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 movements in deferred tax assets recognised by the Group were as follows:

	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 2003	—	—	—	27	—	27
Reversal of temporary differences	—	—	—	(3)	—	(3)
Origination of temporary differences	21	42	—	—	—	63
Balance at 1 January 2004	21	42	—	24	—	87
Reversal of temporary differences	(16)	(18)	(1)	—	—	(35)
Origination of temporary differences	13	39	—		13	65
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	8	57	(5)	19	13	92

9. Earnings Per Share

The calculation of the basic and diluted earnings per share is based on the following data:

	2005	2004	2003
Earnings			
Earnings for the purposes of basic earnings per share being net profit for the year	885	1,130	594
Effect of dilutive potential ordinary shares:			
Interest on convertible loan notes (net of tax)	—	—	—
Earnings for the purposes of diluted earnings per share	88.5	113	59.4

9. Earnings Per Share (continued)

	Number	Number	Number
Number of shares			
Weighted average number of ordinary shares for the purposes of basic earnings per share (in millions)	10	10	10
Effect of dilutive potential ordinary shares:			
Share options	—	—	—
Convertible loan notes	—	—	—
Weighted average number of ordinary shares for the purposes of diluted earnings per share (in millions)	10	10	10

10. Intangible Assets

Balance at 31 December 2002 (restated)	369
Additions	662
Write off	(158)
Amortization	(11)
Balance at 31 December 2003	862
Additions	561
Determination of provision from prior years	37
Amortization	(15)
Write off	(64)
Transfer to property, plant and equipment	(30)
Balance at 31 December 2004	1,351
Additions	329
Amortization	(18)
Write off	(153)
Transfer to property, plant and equipment	(958)
Balance at 31 December 2005	551

Decreases in intangible assets were as follows:

HRK 24 million as of 31 December 2003; and

HRK 24 million as of 31 December 2004.

(All amounts in HRK millions)

11. Property, Plant and Equipment

a) By business segment

	Oil and gas exploration and production, gas storage and oilfield services	Refining and Wholesale	Retail	Other	Total
At 31 December 2003 (restated)					
Cost	26,594	8,191	3,975	1,192	39,952
Accumulated depreciation	21,178	6,271	2,617	556	30,622
Net book value	5,416	1,920	1,358	636	9,330
At 31 December 2004 (restated)					
Cost	27,552	10,310	2,266	1,341	41,469
Accumulated depreciation	21,798	7,604	1,403	647	31,452
Net book value	5,754	2,706	863	694	10,017
At 31 December 2005					
Cost	29,826	10,793	2,355	1,370	44,344
Accumulated depreciation	22,386	7,771	1,497	681	32,335
Net book value	7,440	3,022	858	689	12,009

(All amounts in HRK millions)

11. Property, Plant and Equipment (continued)

b) By asset type

	Oil and gas properties	Land and buildings	Plant and machinery and assets under construction	Vehicles and office equipment	Collective Consumption assets	Total
Cost or valuation						
Balance at 31 December 2002 (restated)	19,193	9,076	9,378	1,029	86	38,762
Additions (net of expensed G&G works)	(79)	7	1,527	42	—	1,497
Change of estimate	(81)	—	—	—	—	(81)
Transfers	244	102	(434)	88	—	—
Disposals	(14)	(54)	(100)	(53)	(5)	(226)
Balance at 31 December 2003 (restated)	19,263	9,131	10,371	1,106	81	39,952
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 (restated)	19,622	9,414	11,165	1,194	74	41,469
Additions	—	6	1,759	38	—	1,803
Change of estimate in decommissioning costs	284	—	—	—	—	284
Strategic spare parts and transfer from intangible assets	—	—	1,068	—	—	1,068
Transfers	320	486	(850)	44	—	—
Disposals	—	(29)	(176)	(57)	(12)	(274)
Foreign exchange	—	(3)	(2)	(1)	—	(6)
Balance at 31 December 2005	20,226	9,874	12,964	1,218	62	44,344

(All amounts in HRK millions)

11. Property, Plant and Equipment (continued)

b) By asset type (continued)

	Oil and gas properties	Land and buildings	Plant and machinery and assets under construction	Vehicles and office equipment	Collective Consumption assets	Total
Accumulated depreciation						
Balance at 31 December 2002	15,327	5,851	7,525	908	56	29,667
Charge for the year	314	189	226	88	1	818
Wells depreciation	181	—	—	—	—	181
Additions	—	—	—	—	—	—
Impairment losses/ Impairment loss adjustments	63	—	79	—	—	142
Transfers	9	(11)	—	2	—	—
Disposals	(20)	(22)	(91)	(50)	(3)	(186)
Balance at 31 December 2003 (restated)	15,874	6,007	7,739	948	54	30,622
Charge for the year	341	202	236	96	1	876
Wells depreciation	97	8	5	—	—	110
Impairment losses/ Impairment loss adjustments	72	21	3	3	—	99
Transfers	(56)	6	16	34	—	—
Disposals	(19)	(57)	(120)	(53)	(6)	(255)
Balance at 31 December 2004 (restated)	16,309	6,187	7,879	1,028	49	31,452
Charge for the year	412	235	237	90	1	975
Additions	—	—	1	1	—	2
Strategic spare parts and transfer from intangible assets	—	—	46	1	—	47
Impairment losses/ Impairment loss adjustments	73	31	8	6	—	118
Transfers	(198)	229	2	(33)	—	—
Disposals	(2)	(28)	(162)	(56)	(8)	(256)
Foreign exchange	—	(1)	(1)	(1)	—	(3)
Balance at 31 December 2005	16,594	6,653	8,010	1,036	42	32,335
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
At 31 December 2003	3,389	3,124	2,632	158	27	9,330

11. Property, Plant and Equipment (continued)

b) By asset type (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; 2003: HRK 616 million). Included above are assets under construction of HRK 1,960 million (2004: HRK 1,808 million; 2003: HRK 1,386 million) which are not yet subject to depreciation.

At 31 December 2003 additions to tangible assets amounted to HRK 1,139 million, and at 31 December 2004 disposals of tangible assets amounted to HRK 204 million.

I) Oil and gas reserves

The ability of the Group to realise the net book value of oil and gas properties (see b) above) in the future is dependent upon the extent to which commercially recoverable oil and gas reserves are in place. During 2003, 2004 and 2005 Naftaplin made an assessment of the quantities of the Company's remaining proved developed oil and gas reserves which were commercially recoverable.

II) Ownership of land and buildings

Due to political developments in Croatia since 1990, certain local municipal land registers have not been fully established. The Company is in the process of registering, through the local courts in Croatia, its title to land and buildings included in the related balance of HRK 2,377 million in 2003, and HRK 2,539 million in 2004 and 2005 (see note b) above). To date, no claims have been made against the Company concerning its title to these assets.

III) Collective consumption assets

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

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

At 31 December 2003, 2004 and 2005, the net book values of the Group's refining and retail property, plant and equipment were HRK 3,278 million, HRK 3,569 million and HRK 3,880 million, respectively.

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

As part of this review, the Management Board has assessed the carrying values of its refining 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 80 million, 27 million and 46 million (IAS 36) which has been included in impairment charges (net) in the years 2003, 2004 and 2005.

V) Review of residual values

Following the revisions to IAS 16 Property, plant and equipment that are effective since 1 January 2005, the Group has reviewed the residual values used for the purposes of depreciation calculations in the light of the amended definition of residual value in the revised Standard. The review did not highlight any requirement for an

(All amounts in HRK millions)

11. Property, Plant and Equipment (continued)

b) By asset type (continued)

adjustment to the residual values used in the current or prior periods. In line with the new requirements, these residual values will be reviewed and updated annually in the future.

VI) Componentisation of plant and equipment

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

12. Investments in Associates and Joint Ventures

	2005	2004	2003
Joined venture — Noble Crosco Drilling Ltd.	—	99	93
Other investments in associates and joint ventures	58	45	50
	58	144	143

Joint Venture — Noble Crosco Driling 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. (2003, 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 50% 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 Business Combinations, the Group has applied the revised accounting policy prospectively from 1 January 2005. Therefore, the change has no impact on amounts reported for 2004 or prior periods.

The carrying amount of negative goodwill has been derecognised at the transition date (1 January 2005), so that the amounts reported for 2004 or prior periods remained unaffected.

Noble Drilling Ltd. purchased from Crosco International, Ltd the JW company Noble Crosco Drilling on 28th of July 2005.

Net effect of sold shares is HRK 73 million, consisting of net effect of sales in amount of HRK 38 million, plus dividends paid during 2005 in the amount of HRK 35 million.

(All amounts in HRK millions)

12. Investments in Associates and Joint Ventures (continued)

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

Investment in joint venture company at 31 December 2002	114
Share in 2003 profit	15
Foreign currency translation adjustment	10
Income from negative goodwill amortization	(46)
Investment in joint venture company at 31 December 2003	93
Share in 2004 profit	23
Entry of retained earnings	(15)
Foreign currency translation adjustment	(4)
Income from negative goodwill amortization	2
Investment in joint venture company at 31 December 2004	99
Write off negative goodwill 1 January 2005 (IFRS 3 Business Combinations)	44
Share in 2005. profit decreased for dividends paid	4
Investment in joint venture company before sales	147
Foreign currency translation adjustment	5
Net value of sold shares	152
Cash received (for sold shares — US$31,916 thousand)	190
Net effect of sold shares in JV Noble Crosco Drilling	38

Profit From Joint Venture

	2005	2004	2003
Noble Crosco Drilling Ltd. — cash from dividends	35	23	15
Noble Crosco Drilling Ltd. — net effect of sold shares	38	—	—
	73	23	15

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).

(All amounts in HRK millions)

12. Investments in Associates and Joint Ventures (continued)

Name of company	Activity	% shareholding held by INA companies	2005	2004	2003
Croplin d.o.o Zagreb	Gas trading	50%	36	23	23
SOL-INA d.o.o	Industrial gas production	37%	22	22	22
Mideast Integrated Drilling & Well Services Company LLC, Oman	Oil drilling and well services	49%	—	—	2
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%			1
ED INA d.o.o. Zagreb	Research, development and hydrocarbon production	50%	—	—	1
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%	—	—	1
			58	45	50

13. Investments in Other Companies

	2005	2004	2003
Investments up to 20%	30	31	61
Deposits	1	1	4
Long-term loans	23	27	23
Other investments	54	59	88

14. Long-Term Receivables

	2005	2004	2003
Amounts receivable for apartments sold	192	202	213
Other long-term receivables	12	16	25
	204	218	238

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 per cent. of the value of sold apartments are included in other non-current liabilities (Note 24). 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.

(All amounts in HRK millions)

15. Inventories

	2005	2004	2003
Crude oil	465	468	614
Gas inventories	129	289	394
Merchandise	282	76	60
Raw material	1,058	281	365
Spare parts, materials and supplies	266	264	209
Work in progress	550	457	407
Refined products	669	510	434
Prepayments for inventories	23	5	17
	3,442	2,350	2,500

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 Group.

Pursuant to Ordinance on obligatory stock of oil and oil derivates follows that INA is obligator of maintaining obligatory stock of oil and oil derivatives in required quantities.

Based on realised net import (difference between import and export), obligatory INA stock as of 31 December 2005 amount to 436,272 oil units (20 per cent. of annual net import), out of total 492,974 oil units held on inventories balances as at year-end. Obligatory INA stock as of 31 December 2004 amount to 344,288 oil units (15 per cent. of annual net import), out of total 554,404 oil units held on inventories balances as at year end. As of 31 December 2003 obligatory INA stock amount to 238,881 oil units (10 per cent. of annual net import) out of total 298,562 oil units held on inventories balances as of year end.

16. Trade Receivables, Net

	2005	2004	2003
Trade receivables	2,723	2,443	2,390
Allowance for doubtful receivables	(419)	(460)	(452)
	2,304	1,983	1,938

Other income in 2005 includes an amount of HRK 19 million (HRK 25 million in 2004 and HRK 113 million in 2003) 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 from maturity.

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 per cent. of outstanding debtors provided against were collected within 40 days, and 46 per cent. within 90 days.

The change in the accounting estimate for determining provisions for bad and doubtful receivables has an impact only on the 2005 result, with the effect of HRK 10 million as presented in the table below.

(All amounts in HRK millions)

16. Trade Receivables, Net (continued)

	Over 60 days	Over 120 days	Variance
Effects of change in 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.

17. Other Receivables

	2005	2004	2003
Tax prepayments	166	131	138
Other	96	69	99
	262	200	237

18. Other Current Assets

	2005	2004	2003
Short-term loans and deposits	36	5	22
Other	21	10	52
	57	15	74

19. Prepayments and Advances

	2005	2004	2003
Prepayments for custom taxes, duties and other charges	180	101	87
Accrued income	108	—	—
Other	53	56	—
	341	157	87

20. Bank Loans and Overdrafts

	2005	2004	2003
Overdrafts and short-term loans	958	345	487
Current portion of long-term loans (note 22)	476	462	449
	1,434	807	936

(All amounts in HRK millions)

20. Bank Loans and Overdrafts (continued)

	Repayment deadline	Security/ guarantee	2005	2004	2003
BNP Paribas (US$)	by 28/02/2006	INA d.d. guarantee	209	—	285
Nova Ljubljanska banka, Ljubljana (SIT)	by 12/06/2006	—	5	7	6
Natexis Bank (US$)	by 30/02/2006	INA d.d. guarantee	—	—	40
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	33
OIB Oman (US$)	by 31/12/2004	INA d.d. guarantee	—	—	12
Bank Austria Creditanstalt (US$)	by 20/06/2006		321	—	—
Zagrebačka banka, Zagreb (EUR, US$, HRK)	by 17/06/2006	—	11	18	23
Privredna banka Zagreb, Zagreb (HRK)	by 31/12/2006	—	11	5	13
Bank Muscat (US$)	by 26/01/2006	—	3	9	—
Hrvatska poštanska banka (EUR and HRK)	by 31/07/2005	—	—	11	23
Splitska banka (US$, HRK)	by 29/09/2006	—	41	61	30
Slavonska banka Osijek	by 19/05/2006	—	12	—	—
Other overdrafts and short term loans			6	5	16
Current portion of long-term loans (note 23)			110	95	66
INA Matica					
Overdrafts and short term loans			153	188	6
Current portion of long-term loans (note 23)			366	367	383
Total INA Group			1,434	807	936

In 2005, interest on the above loans was paid at rates based on LIBOR plus up to 1% (in 2004 and 2003: LIBOR plus up to 2%). The Company uses several short-term bank loans to manage its short-term cash flow cycle, including facilities arranged through Interina Guernsey and Inter Ina Limited, wholly owned subsidiaries. In 2005, these loans were typically settled in full every 90 days on a revolving basis (in 2004 and 2003 every 60 days).

21. Accounts Payable and Other Short-Term Liabilities

	2005	2004	2003
Trade payables	3,239	2,202	2,099
Production and sales taxes payable and other taxes	526	903	624
Payroll and payroll taxes	66	159	158
Other creditors	184	143	146
	4,015	3,407	3,027

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

22. Accruals and Deferred Income

	2005	2004	2003
Accrued interest — long-term loans	21	14	20
Accrued expenses	110	55	73
Other	36	37	47
	167	106	140

(All amounts in HRK millions)

23. Long-Term Loans

Long-term loans are denominated in a variety of foreign currencies and are subject to a range of interest rates. The majority of these loans are secured by bills of exchange held by Croatian banks. The loans of the Group outstanding at 31 December 2005, 2004 and 2003 are analysed as follows:

	Weighted average interest rate 2005 %	Weighted average interest rate 2004 %	Weighted average interest rate 2003 %	2005	2004	2003
Bank loans in US$	4.29	3.21	3.09	936	998	1,325
Bank loans in EUR	4.69	4.37	4.82	271	289	231
Bank loans in Yen	5.17	5.17	5.17	16	16	17
Bank loans in DKK	2.75	2.75	4.03	1	1	1
Total				1,224	1,304	1,574
Payable within 1 year				(476)	(462)	(449)
Total long-term loans — INA Group				748	842	1,125

The maturity of loans may be summarised as follows:

	2005	2004	2003
Current portion of long-term debt	476	462	449
Payable within one to two years	565	485	460
Payable within two to three years	55	218	441
Payable within three to four years	53	44	104
Payable within four to five years	42	45	65
Payable within over five years	33	50	55
Total	1,224	1,304	1,574

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

At 31 December 2002	1,773
New borrowings raised	378
Amounts repaid	(377)
Foreign exchange gains	(200)
At 31 December 2003	1,574
New borrowings raised	237
Amounts repaid	(431)
Foreign exchange gains	(76)
At 31 December 2004	1,304
New borrowings raised	322
Amounts repaid	(480)
Foreign exchange losses	78
At 31 December 2005	1,224

23. Long-Term Loans (continued)

The principal long-term loans outstanding at 31 December 2005, 2004 and 2003 and the principal new loans drawn down and repaid during 2005, 2004 and 2003 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). At 31 December 2004 and 31 December 2003 the loan balance was US$86 million (HRK 483 million) and US$129 million (HRK 787 million), respectively. This loan is repayable in seven equal half yearly instalments at an interest rate 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 became due in 2005 (US$239 thousand became due in 2004).

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, 31 December 2004 and 31 December 2003 was HRK 48.5 million, HRK 54 million and HRK 62 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 and 31 December 2004 was HRK 16 million, and at 31 December 2003 was 17 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

The long-term loan from Banca Intesa was a gas pipeline construction facility denominated in US dollars. The loan was secured by two letters of credit in the amount of 1/20 of drawdown tranches and interest was payable at LIBOR plus 2% annually. The balance outstanding at 31 December 2004 was US$10.5 million (HRK 59 million). The guarantee for the loan facility was issued by ENIFIN SpA.

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 is using the loan facility to finance modernization of refineries, exploration

(All amounts in HRK millions)

23. Long-Term Loans (continued)

and production activities. 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.

24. Other Non — Current Liabilities

	2005	2004	2003
Liabilities to Government for sold apartments	106	112	142
Deferred income for sold apartments	56	63	61
Other long-term liabilities	—	3	16
	162	178	219

The long-term payable to the government relates to obligation arising on the sale of housing units to employees under the government program (Note 13). 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.

25. Provisions

	Decommission charges	Tax authority claims	Legal claims	ENI project claims	Redundancy costs	Tax obligation claims of Holdina Sarajevo	Other	Total
At 31 December 2002	888	—	17	—	—	—	53	958
Charge for the year	67	144	137	—	—	—	—	348
Effect of change in estimates, capitalised	(81)	—	—	—	—	—	—	(81)
Provision utilised during the year	(23)	—	—	—	—	—	(18)	(41)
At 31 December 2003	851	144	154	—	—	—	35	1,184
Charge for the year	70	—	1	120	145	55	23	414
Effect of change in estimates, capitalised	106	—	—	—	—	—	—	106
Provision utilised during the year	(38)	—	(12)	—	—	—	(9)	(59)
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

	2005	2004	2003
Analysed as:			
Current liabilities	149	202	5
Non-current liabilities	1,759	1,443	1,179
	1,908	1,645	1,184

25. Provisions (continued)

Decommissioning charges

Provision relates to the decommissioning and removal of assets, such as an oil and gas production facility, the initial recognition of the decommissioning provision is treated as part of the cost of the related property, plant and equipment. Subsequent adjustments to the provision arising from changes in estimates are also treated as an adjustment to the cost of the property, plant and equipment and thus dealt with prospectively in the income statement through future depreciation of the asset. As of 31 December 2005, the Company recognised a decommissioning provision for 47 of those fields.

Tax authority claims

The balance sheets of the Group include an accrued provision of HRK 144 million from the year 2003 relating to a sales tax assessment issued by the Croatian tax authorities with respect to certain volumetric losses arising during normal production processes at one of the Company's refineries in Croatia. Whilst this liability has been recognised, the Management Board made a complaint to the secondary liability Tax authorities to appeal against this sales tax assessment in terms of both its nature and its amount. In 2006 the final decision was reached. The Company paid in total HRK 124 million.

Legal claims

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

"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., and
- Uljanik Tesu, d.d.

The plaintiffs filed legal actions claiming damages for the loss incurred as a result of unjustified interruption in the gas supply in the period 18 December 1996 — 21 February 1997 by INA, resulting in a loss to the plaintiff's

25. Provisions (continued)

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

In 2006 tax obligation regarding 2003 and 2004 was settled following the resolution reached in 2005 of the total obligation in respect of taxes of HRK 111 million.

On November 08, 2005 parties signed Amendment N. 5 to the ,,Ivana Gas Field” PSA and Amendment N. 5 to the Aiza Laura Contract Area” PSA.

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

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

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, the 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.

(All amounts in HRK millions)

26. Retirement and Other Employee Benefit Schemes

Defined Benefit Schemes

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

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

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

The actuarial valuations of the present value of the defined benefit obligation were carried out at 31 December 2005 by I.A.C.T.A. Actuarial Consulting Ltd. In 2004 the Company recorded HRK 33 million provisions against jubilee awards, and HRK 81 million provisions against retirement compensation costs.

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

Key assumptions used:	Valuation at 2005	2004	2003
Discount rate	5.0%	6.0%	7.5%
Turnover rate	2.5%	3.5%-4.0%	2.00%-3.50%
Mortality table	HR2004 70%	N/A	N/A
Average expected remaining working lives (years)	17	N/A	N/A

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:

	2005	2004	2003
Present value of defined benefit obligations	78	67	62
Liability recognised in the balance sheet	78	67	62

	2005	2004	2003
This amount is presented in the balance sheet as follows:			
Current liabilities	7	11	9
Non-current liabilities	71	56	53
	78	67	62

27. Share Capital

	2005	2004	2003
Issued and fully paid:			
10 million shares (HRK 900 each)	9,000	9,000	9,000

(All amounts in HRK millions)

27. Share Capital (continued)

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

The Company's share capital consists of 10 million authorised and issued shares of par value HRK 900 each. There were no changes in the registered or issued share capital of the Company in either the 2005, 2004 or 2003. The Company has one class of ordinary shares which do not entitle to any fixed dividends or bear any restrictions.

28. Other Reserves

The reserves of the Group include amounts in respect of accumulated surpluses and deficits, revaluations of property, plant and equipment and foreign exchange gains and losses which have arisen over many years prior to 1993. For several years, the Croatian economy was subject to hyperinflation and, prior to 31 December 1993, neither the Company nor the Group had been subject to audit. For these reasons, it was not practicable to analyse the composition of the reserves of the Company or the Group as of 31 December 1993 into their constituent parts.

For subsequent periods, the results of the transactions of the Group, to the extent that they affect reserves, are accounted for within appropriate reserve accounts. The reserves of the Group as of 31 December 1993 were combined at that date, and are separately stated below.

Movements on reserves during the year were as follows:

	Combined reserves at 31 December 1993	Foreign currency translation reserve	Other reserves	Total
At 31 December 2003	2,132	(188)	447	2,391
Movements during 2004	—	(42)	—	(42)
At 31 December 2004	2,132	(230)	447	2,349
Movements during 2005	—	41	—	41
At 31 December 2005	2,132	(189)	447	2,390

29. Retained Earnings

	Retained earnings/ (Losses brought forward)
Balance at 1 January 2003	(3,431)
Correction of prior-period error	1,261
Balance at 1 January 2003 (restated)	(2,170)
Net profit for the year	594
Balance at 1 January 2004	(1,576)
Net profit for the year	1,130
Balance at 1 January 2005	(446)
Adoption of revised International Financial Reporting Standards	44
Balance at 1 January 2005 (restated)	(402)
Net profit for the year	885
At 31 December 2005	483

(All amounts in HRK millions)

29. Retained Earnings (continued)

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

30. Minority Interests

At 31 December 2003	6
At 31 December 2004	6
At 31 December 2005	6

31. Segment Analysis

Primary Disclosure by business segments

Year 2005	Exploration and production	Refining and wholesale	Retail	Corporate and other	Elimination	Total
Sales to external customers	4,240	11,798	4,940	92	—	21,070
Inter-segment sales	2,367	3,926	54	881	(7,228)	—
Total revenue	6,607	15,724	4,994	973	(7,228)	21,070
Operating expenses, net of other operating income	(5,045)	(15,325)	(4,929)	(1,589)	7,228	(19,660)
Profit/(loss) from operations	1,562	399	65	(616)	—	1,410
Share in the profit of associated companies						73
Net finance cost						(337)
Profit before tax						1,146
Income tax expense/ (benefit)						(261)
Profit for the year						885

2004	Exploration and production	Refining and wholesale	Retail	Corporate and other	Elimination	Total
Revenue	3,874	9,720	4,310	84	—	17,988
Inter-segment sales	1,836	3,298	18	717	(5,869)	—
Total revenue	5,710	13,018	4,328	801	(5,869)	17,988
Operating expenses, net of other operating income	(4,626)	(12,185)	(4,247)	(1,376)	5,869	(16,565)
Profit/(loss) from operations	1,084	833	81	(575)	—	1,423
Share in the profit of associated companies						23
Net finance cost						(13)
Profit before tax						1,433
Income tax expense/ (benefit)						(303)
Profit for the year						1,130

(All amounts in HRK millions)

31. Segment Analysis (continued)

2003	Exploration and production	Refining and wholesale	Retail	Corporate and other	Elimination	Total
Revenue	3,721	7,849	3,718	57	—	15,345
Inter-segment sales	1,695	3,654	60	663	(6,072)	—
Total revenue	5,416	11,503	3,778	720	(6,072)	15,345
Operating expenses, net of other operating income	(4,727)	(11,531)	(3,644)	(1,320)	6,072	(15,150)
Profit/(loss) from operations	689	(28)	134	(600)	—	195
Share in the profit of associated companies						15
Net finance income						328
Profit before tax						538
Income tax expense/ (benefit)						56
Profit for the year						594

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

(All amounts in HRK millions)

31. Segment Analysis (continued)

2004 Assets and liabilities	Exploration and production	Refining and wholesale	Retail	Corporate and other	Elimination	Total
Property, plant and equipment	5,754	2,706	863	694	—	10,017
Intangible assets	1,296	14	13	28	—	1,351
Investments in associates and joined ventures	144	—	—	—	—	144
Inventories	579	1,620	107	44	—	2,350
Trade receivables, net	938	1,919	304	219	(1,397)	1,983
Not allocated assets						1,975
Total assets						17,820
Trade payables	915	1,581	1,129	324	(1,747)	2,202
Not allocated liabilities						4,850
Total liabilities						7,052
Other segment information						
Capital expenditure:	1,571	871	179	221	(526)	2,316
Property, plant and equipment	1,034	869	179	199	(526)	1,755
Intangible assets	537	2	—	22	—	561
Depreciation and amortization	806	200	97	61	—	1,164
From this: Impairment losses recognized in profit and loss	136	—	27	—	—	163

2003 Assets and liabilities	Exploration and production	Refining and wholesale	Retail	Corporate and other	Elimination	Total
Property, plant and equipment	5,416	2,211	1,067	636	—	9,330
Intangible assets	820	17	13	12	—	862
Investments in associates and joined ventures	141	—	—	2	—	143
Inventories	736	1,662	109	(7)	—	2,500
Trade receivables, net	1,062	2,132	219	260	(1,735)	1,938
Not allocated assets						1,741
Total assets						16,514
Trade payables	1,104	1,224	1,174	369	(1,772)	2,099
Not allocated liabilities						4,594
Total liabilities						6,693
Other segment information						
Capital expenditure:	1,639	496	204	246	(426)	2,159
Property, plant and equipment	995	491	204	233	(426)	1,497
Intangible assets	644	5	—	13	—	662
Depreciation and amortization	912	183	162	53	—	1,310
From this: Impairment losses recognized in profit and loss	221	—	79	—	—	300

(All amounts in HRK millions)

31. Segment Analysis (continued)

Secondary Disclosure by geographical segments

2005 Assets and liabilities	Republic of Croatia	Middle East and Africa	Rest of the world	Total
Property, plant and equipment	10,077	1,756	176	12,009
Intangible assets	187	363	1	551
Investments in associates and joined ventures	20	—	38	58
Inventories	3,398	—	44	3,442
Trade receivables, net	1,882	131	291	2,304
Not allocated assets				1,931
Total assets				20,295
Other segment information				
Capital expenditure:	1,722	351	59	2,132
Property, plant and equipment	1,596	148	59	1,803
Intangible assets	126	203	—	329

2004 Assets and liabilities	Republic of croatia	Middle east and africa	Rest of the world	Total
Property, plant and equipment	8,949	877	191	10,017
Intangible assets	55	1,293	3	1,351
Investments in associates and joined ventures	13	—	131	144
Inventories	2,302	—	48	2,350
Trade receivables, net	1,735	38	210	1,983
Not allocated assets				1,975
Total assets				17,820
Other segment information				
Capital expenditure:	1,602	664	50	2,316
Property, plant and equipment	1,538	167	50	1,755
Intangible assets	64	497	—	561

2003 Assets and liabilities	Republic of croatia	Middle east and africa	Rest of the world	Total
Property, plant and equipment	8,425	728	177	9,330
Intangible assets	163	693	6	862
Investments in associates and joined ventures	18	—	125	143
Inventories	2,464	—	36	2,500
Trade receivables, net	1,526	131	281	1,938
Not allocated assets				1,741
Total assets				16,514
Other segment information				
Capital expenditure:	1,473	686		2,159
Property, plant and equipment	1,371	126	—	1,497
Intangible assets	102	560	—	662

(All amounts in HRK millions)

32. Related Party Transactions

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

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

Trading transactions

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

INA Matica	Sales of goods			Purchase of goods		
Business partners	2005	2004	2003	2005	2004	2003
Foreign related companies						
Interina Ltd Guernsey	2,064	1,189	933	989	686	1,434
Holdina Sarajevo	453	302	86	—	—	1
Interina d.o.o. Mostar	222	172	22	—	—	—
Interina d.o.o. Ljubljana	70	130	133	—	—	1
Interina Ltd London	71	202	7	8,855	5,442	4,838
Domestic related companies						
Crosco Group	19	11	11	422	478	200
Osijek Petrol d.d	948	104	71	—	—	3
Crobenz d.d. Zagreb	602	209	131	—	—	1
Proplin d.o.o. Zagreb	389	316	286	111	165	135
STSI d.o.o. Zagreb	24	6	6	332	353	289
Maziva Zagreb d.o.o. Zagreb	35	27	32	53	48	65
Companies available for sale						
JANAF d.d. Zagreb	—	—	1	51	49	55
Strategic partner						
MOL Plc	112	42	—	368	494	—

(All amounts in HRK millions)

32. Related Party Transactions (continued)

INA Matica Business partners	Sales of goods 2005	Sales of goods 2004	Sales of goods 2003	Purchase of goods 2005	Purchase of goods 2004	Purchase of goods 2003
Companies controlled by the State						
Croatian Railways	138	116	139	35	33	37
Croatian Electricity (HEP)	806	964	1,302	112	106	86
Croatian Telecom	3	3	4	23	22	20
Croatia osiguranje	1	1	—	45	34	33
Croatian Post (Hrvatska pošta)	1	1	1	4	5	5
Ministry of Defence of Republic of Croatia	64	58	70	—	—	—
Hrvatske Šume	10	14	18	1	—	—
Jadrolinija	96	106	123	3	3	2
Narodne novine	—	—	—	15	14	18
Hrvatska radio televizija	—	—	—	4	1	1
Plovput	—	—	—	—	—	—
Croatia Airlines	169	102	84	—	—	—
Petrokemija Kutina	515	459	57	—	—	—
Plinacro	3	3	—	422	359	63
Zeljezara Sisak	8	12	17	—	—	53

(All amounts in HRK millions)

32. Related Party Transactions (continued)

Trading transactions

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

INA Matica Business partners	Amounts owed by related parties 2005	2004	2003	Amounts owed to related parties 2005	2004	2003
Foreign related companies						
Interina Ltd Guernsey	85	115	179	164	—	325
Holdina Sarajevo	66	36	29	1	1	—
Interina d.o.o. Mostar	41	32	11	—	—	—
Interina d.o.o. Ljubljana	15	26	31	—	—	—
Interina Ltd London	—	—	7	2,056	613	812
Domestic related companies						
Crosco Group	7	6	6	104	127	146
Osijek Petrol d.d	120	17	20	1	1	1
Crobenz d.d. Zagreb	59	43	19	1	1	1
Proplin d.o.o. Zagreb	69	68	51	11	19	20
STSI d.o.o. Zagreb	7	9	4	193	115	245
Maziva Zagreb d.o.o. Zagreb	23	14	17	23	15	18
Companies available for sale						
JANAF d.d. Zagreb	—	—	1	—	—	7
Strategic partner						
MOL Plc	11	—	—	42	120	—
Companies controlled by the State						
Croatian Railways	53	53	27	8	5	7
Croatian Electricity (HEP)	222	132	283	10	12	11
Croatian Telecom	3	3	2	2	1	2
Croatia osiguranje	—	—	—	2	2	4
Croatian Post (Hrvatska pošta)	2	2	1	1	1	1
Ministry of Defence of Republic of Croatia	33	20	16	—	—	—
Hrvatske Šume	7	8	6	—	—	—
Jadrolinija	24	31	12	1	—	—
Narodne novine	—	—	—	6	6	14
Hrvatska radio televizija	—	—	—	2	—	—
Plovput	—	—	—	—	—	—
Croatia Airlines	19	14	5	—	—	—
Petrokemija Kutina	86	107	75	28	37	6
Plinacro	1	—	1	82	18	82
Željezara Sisak	7	10	11	—	—	—

Sales of goods to related parties were made at the Company's usual list prices, less average discounts which reflected 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.

(All amounts in HRK millions)

32. Related Party Transactions (continued)

Compensation of key management personnel

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

	INA Matica 2005	INA Matica 2004	INA Matica 2003
Short-term employee benefits	34	27	15
Termination bonuses	23	—	—
Contribution in kind	—	—	4
Total:	57	27	19

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

Based upon signed representations in connection with the related party disclosure requirements, employees of INA d.d. declared that none of their close family members of the INA d.d. management team had any interest with INA d.d. that would enable them to benefit from any favourable influence over the entity, in either 2005, 2004 or 2003.

33. Commitments

The Group has 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 20.

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, five contracts were concluded with vendors as of 31 December 2005, worth HRK 179 million.

33. Commitments (continued)

Purchase obligations under take or pay contracts

On 1 June 2005 Ina Industrija Nafte d.d. concluded the contract with GAZEXPORT Ltd., Moscow for the supply of 1.2 bcm per year of natural gas under take or pay commitment until 2010. As of 31 December 2005 the Company's respective obligation is HRK 8 billion for the remaining 5 years.

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

Gas selling Contracts

For the periods ending 31 December 2003, 31 December 2004 and 31 December 2005 the Group had following long term natural gas sale contracts:

I. In the period from 31 December 2003 to the expiry of the underlying contract:

1. Long-term contract between INA and HEP d.d. Zagreb
   a) Contracted supply quantity: 700,000,000 m3/year
   b) Annual sales: US$75,954,423 or HRK 458,422,920
   c) Contract period: until 2015
   d) Estimated revenue for the remaining period: HRK 22,882,713,900
2. Long-term contract between INA — PETROKEMIJA d.d. Kutina
   a) Contracted supply quantity: 400,000,000 m3/year
   b) Annual sales: US$53,234,307 or HRK 321,295,660
   c) Contract period: until 2006
   d) Estimated revenue for the remaining period: HRK 675,292,867
3. Long-term contract between INA and PLIVA d.d. Zagreb
   a) Contracted supply quantity: 14,000,000 m3/year
   b) Annual sales: US$1,751,199 or HRK 10,659,364
   c) Contract period: until 2013
   d) Estimated revenue for the remaining period: HRK 251,675,429

II. In the period from 31 December 2004 to the expiry of the underlying contract

1. Long-term contract between INA and HEP d.d. Zagreb
   a) Contracted supply quantity: 700,000,000 m3/year
   b) Annual sales: US$61,998,310 or HRK 368,765,950
   c) Contract period: until 2015,
   d) Estimated revenue for the remaining period: HRK 22,513,947,950
2. Long-term contract between INA and PETROKEMIJA d.d. Kutina
   a) Contracted supply quantity: 400,000,000 m3/year
   b) Annual sales: US$52,706,166 or HRK 313,496,278

33. Commitments (continued)

c) Contract period: until 2006

d) Estimated revenue for the remaining period: HRK 361,796,589

3. Long-term contract between INA and PLIVA d.d. Zagreb

a) Contracted supply quantity: 14,000,000 m3/year

b) Annual sales: US$2,031,511 or HRK 12,083,429

c) Contract period: until 2013

d) Estimated revenue for the remaining period: HRK 251,675,429

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

1. Long-term contract between INA and HEP d.d. Zagreb

a) Contracted supply quantity: 700,000,000 m3/year

b) Annual sales: US$79,671,244, or HRK 469,415,000

c) Contract period: until 2015

d) Estimated revenue for the remaining period: HRK 14,742,870,000

2. Long-term contract between INA and PETROKEMIJA d.d. Kutina

a) Contracted supply quantity: 460,000,000 m3/year

b) Annual sales: US$61,405,759 or HRK 361,796,589

c) Contract period: until 2006

d) Estimated revenue for the remaining period: HRK 361,796,589

3. Long-term contract between INA and PLIVA d.d. Zagreb

a) Contracted supply quantity: 14,000,000 m3/a year

b) Annual sales: US$2,081,332 or HRK 12,263,000

c) Contract period: until 2013

d) Estimated revenue for the remaining period: HRK 227,595,000

34. Contingent Liabilities

Environmental matters

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

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

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

34. Contingent Liabilities (continued)

Disposal of Siberian Energy Investments Limited and White Nights

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

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

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

35. 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, 2004 and 2003 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 incurring interest at variable rates, which exposes the Group to cash flow risk. Details of the interest rate terms which apply to the Group's borrowings are provided in Note 23.

35. Financial Instruments and Risk Management (continued)

Foreign exchange risk

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

Furthermore, the Group's operations in London, Guernsey, Bosnia and Herzegovina, and Slovenia report in foreign currencies. The net assets of these subsidiaries are translated at each balance sheet date using the closing rate method and the exchange rate movement has resulted in exchange gains of HRK 41 million in 2005 (exchange losses of HRK 42 million in 2004 and exchange losses of HRK 86 million for 2003), which are charged directly to reserves in accordance with IAS 21.

Counter-party risk

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

Fair values of financial instruments

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

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

At 31 December 2005, 2004 and 2003 the carrying amounts of cash and short-term deposits, accounts receivable, accounts payable and accrued expenses, and short-term borrowings approximated their fair values due to the short-term maturities of these assets and liabilities.

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

Following the adoption of International Accounting Standards 39 'Financial Instruments: Recognition and Measurement', the Group accounts for embedded derivatives in the balance sheet at fair value. The only material embedded derivatives are within long-term gas transportation agreements (see note 33) 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 contracts that contain embedded derivatives as defined by IAS 39. An embedded derivative is a component of a non-derivative host contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. As required by IAS 39, such embedded derivative instruments should be separated from the host contract and accounted for as a derivative carried at fair value, with changes in fair value recognised in profit or loss. The fair value of foreign-exchange forward contracts has been determined on the basis of exchange rates effective at the balance sheet date. The value of the embedded instrument to replace the inflation index has been determined as the difference between the cumulative inflation index of the contracted inflation escalation index and the inflation rate in the country of contract execution. Any long-term effect of the embedded derivatives has been discounted at a discount rate similar to the interest rate on Government bonds.

(All amounts in HRK millions)

35. Financial Instruments and Risk Management (continued)

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

	2005	2004	2003
Fair value at 1 January	284	275	201
Financial income relating to the net change in fair value in the year (Note 6)	5	9	74
Fair value at 31 December	289	284	275

	2005	2004	2003
Analysed as:			
Current portion	64	149	74
Non-current portion	225	135	201
	289	284	275

36. Subsequent Events

Purchase of new investment

On 8 September 2006 INA Matica together with MOL under a MOL/INA Consortium entered into a Recapitalization Agreement for the acquisition of Energopetrol d.d. Sarajevo for the total amount of KM 10.2 million payable equally by either party, pursuant to which the Consortium will acquire a 67% share of Energopetrol d.d shared equally by either party (33.5% owned by each party).

The subjects of acquisition are also investments. The Consortium shall invest KM 150 million in the following three-year period:

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

The Consortium also agreed to cover all liabilities of Energopetrol d.d .in the amount of KM 60.195 million.

Participation and Joint Operating Agreement

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

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

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

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

36. Subsequent Events (continued)

Krajinapetrol additional investment

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

Changes in applicable laws and regulations

Effective 7 July 2006 new legislation was introduced in the Republic of Croatia (Regulation on Pricing of Oil Derivatives: Official Gazette No. 77, 07/07/2006) introducing a new component in the wholesale price relating to the financing of Croatian Agency for Obligatory Reserve of Oil and Oil Derivatives.

It requires the company to pay HRK 120 per sold ton of oil and oil derivatives.

Consequently, the Group started to incur additional cost of approximately HRK 20 million per month.

Strategic reserves

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

37. Responsibility for the Financial Statements

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

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

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

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

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

38. Approval of the Financial Statements

These financial statements were approved by the Board and authorised for issue on 31 October 2006.

Signed on behalf of the Company on 31 October 2006:

L. Geszti	T. Dragičević

INA — INDUSTRIJA NAFTE d.d. ZAGREB

CONDENSED CONSOLIDATED INA GROUP STATEMENT OF INCOME

Periods ended 30 June 2006 and 2005
(all amounts in HRK millions)

	Notes	Six months ended 30 June 2006 unaudited	Six months ended 30 June 2005 unaudited
Sales revenue			
a) Domestic		6,878	6,159
b) Exports		3,904	2,941
Total sales revenue		10,782	9,100
Income from own consumption of products and services		342	115
Other operating income		319	243
Total operating income		11,443	9,458
Changes in inventories of finished products and work in progress		92	116
Cost of raw materials and consumables	5	(5,382)	(4,538)
Depreciation and amortization		(543)	(505)
Service costs		(1,627)	(1,200)
Staff costs		(1,155)	(1,084)
Cost of other goods sold	6	(1,916)	(1,486)
Impairment charges (net)		(235)	(212)
Provisions for charges and risks		(9)	(49)
Operating expenses		(10,775)	(8,958)
Profit from operations		668	500
Share in the profit of subsidiaries		—	—
Financial income		346	175
Finance costs	_	(237)	(262)
Net profit/(loss) from financial activities		109	(87)
Profit for the period before taxation		777	413
Current taxes	7	(144)	(114)
Deferred taxes	7	(3)	40
Profit for the period		630	339
Earnings per share		HRK 63	HRK 34

Signed on behalf of the Company:

T. Dragičević

L. Geszti

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

INA — INDUSTRIJA NAFTE d.d. ZAGREB

CONDENSED CONSOLIDATED INA GROUP BALANCE SHEET

At 30 June 2006 and 2005
(all amounts in HRK millions)

	Notes	30 June 2006 unaudited	31 December 2005	30 June 2005 unaudited	31 December 2004
ASSETS					
Non-current assets					
Intangible assets	9	432	551	491	1,351
Property, plant and equipment	10	12,508	12,009	10,965	10,017
Investments in associates and joined ventures		57	58	206	144
Investments in other companies		47	54	56	59
Long-term receivables		197	204	215	218
Derivative financial instruments		217	225	336	135
Deferred tax		88	92	157	117
Available-for-sale assets	11	358	256	252	211
		13,904	13,449	12,678	12,252
Current assets					
Inventories		3,590	3,442	3,184	2,350
Trade receivables, net		2,191	2,304	2,018	1,983
Other receivables		204	262	138	200
Derivative financial instruments		88	64	35	149
Other current assets		50	57	56	15
Prepayments and advances		245	341	125	157
Cash with bank and in hand		396	376	474	714
		6,764	6,846	6,030	5,568
TOTAL ASSETS		20,668	20,295	18,708	17,820

Signed on behalf of the Company:

T. Dragičević

L. Geszti

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

INA — INDUSTRIJA NAFTE d.d. ZAGREB

CONDENSED CONSOLIDATED INA GROUP BALANCE SHEET

At 30 June 2006 and 2005
(all amounts in HRK millions)

	Notes	30 June 2006 unaudited	31 December 2005	30 June 2005 unaudited	31 December 2004
EQUITY AND LIABILITIES					
Capital and reserves					
Share capital	12	9,000	9,000	9,000	9,000
Revaluation reserve	13	5	(96)	(101)	(141)
Other reserves	14	2,356	2,390	2,381	2,349
Retained earnings/(Deficit)	15	1,113	483	(63)	(446)
Equity attributable to equity holder of the parent		12,474	11,777	11,217	10,762
Minority interests		6	6	6	6
TOTAL EQUITY		12,480	11,783	11,223	10,768
Non-current liabilities					
Long-term loans	16	1,123	748	688	842
Other non-current liabilities		158	162	170	178
Employee benefits obligation		73	71	39	56
Long-term provisions	17	1,388	1,759	1,379	1,443
		2,742	2,740	2,276	2,519
Current liabilities					
Bank loans and overdrafts	18	1,220	958	1,014	345
Current portion of long-term debt		290	476	461	462
Accounts payable		2,893	3,239	2,349	2,202
Taxes and contributions		598	592	741	1,062
Other short-term liabilities		196	184	298	143
Accruals and deferred income		135	167	253	106
Employee benefits obligation		6	7	6	11
Short-term provisions		108	149	87	202
		5,446	5,772	5,209	4,533
TOTAL LIABLITIES		8,188	8,512	7,485	7,052
TOTAL EQUITY AND LIABILITIES		20,668	20,295	18,708	17,820

Signed on behalf of the Company:

T. Dragičević

L. Geszti

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

INA — INDUSTRIJA NAFTE d.d. ZAGREB

CONDENSED CONSOLIDATED INA GROUP STATEMENT OF CHANGES IN EQUITY

Periods ended 30 June 2006 and 2005
(all amounts in HRK millions)

	Share capital	Other reserves	Revaluation reserves	Retained earnings/ accumulated deficit	Equity attributable to equity holder of the parent	Minority interest	Total
Balance at 1 January 2005 — restated	9,000	2,349	(141)	(446)	10,762	6	10,768
Adoption of revised IFRS	—	—	—	44	44	—	44
Balance at 1 January 2005 — revised	9,000	2,349	(141)	(402)	10,806	6	10,812
Gains/losses on available-for-sale investments	—	—	40	—	40	—	40
Exchange differences on translation of the financial statements of foreign operations	—	32	—	—	32	—	32
Net gains recognised directly in equity	—	32	40	—	72	—	72
Profit for the period	—	—	—	339	339	—	339
Total recognised income and expense for the period	—	32	40	339	411	—	411
Balance at 30 June 2005	9,000	2,381	(101)	(63)	11,217	6	11,223
At 1 January 2006	9,000	2,390	(96)	483	11,777	6	11,783
Gains/losses on available-for-sale investments	—	—	101	—	101	—	101
Exchange differences on translation of the financial statements of foreign operations	—	(34)	—	—	(34)	—	(34)
Net gains recognised directly in equity	—	(34)	101	—	67	—	67
Profit for the period	—	—	—	630	630	—	630
Total recognised income and expense for the period	—	(34)	101	630	697	—	697
At 30 June 2006	9,000	2,356	5	1,113	12,474	6	12,480

Signed on behalf of the Company:

T. Dragičević

L. Geszti

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

INA — INDUSTRIJA NAFTE d.d. ZAGREB

CONDENSED CONSOLIDATED INA GROUP CASH FLOW STATEMENT

Periods ended 30 June 2006 and 2005
(all amounts in HRK millions)

	Six months ended	
	30 June 2006 unaudited	30 June 2005 unaudited
Profit before taxation	777	413
Adjusted by:		
Depreciation, depletion and amortisation	543	505
Impairment charges (net)	235	212
Exchange differences	(108)	32
Interest expense, net	95	61
Other finance income (net)	(8)	(66)
Change in provision for charges and risks and other non-cash items	(256)	(215)
Operating cash flow before working capital changes	1,278	942
(Increase)/decrease in inventories	(191)	(902)
(Increase)/decrease in receivables and prepayments	238	67
Increase/(decrease) in trade and other payables	(253)	503
Taxes paid	(303)	(362)
Net cash inflow from operating activities	769	248
Cash flows used in investing activities		
Purchases of property, plant and equipment	(1,094)	(811)
Purchases of intangible assets	(159)	(114)
Proceeds from sale of non-current assets	17	11
Purchase of investments	—	(15)
Dividends received	2	2
Interest received	1	1
Investments and loans to third parties, net	10	7
Net cash (outflow) from investing activities	(1,223)	(919)
Cash flows from financing activities		
Additional long-term borrowings	510	52
Repayment of long-term borrowings	(233)	(246)
Net drawdown /(repayment) of short term borrowings	272	624
Interest paid on long-term loans	(33)	(23)
Other long-term liabilities, net	(4)	(8)
Interest paid on short term loans and other financing charges	(48)	(7)
Net cash inflow/(outflow) inflow from financing activities	464	392
Net increase/(decrease) in cash and cash equivalents	10	(279)
At 1 January	376	714
Foreign exchange movements	10	39
At 30 June	396	474

Signed on behalf of the Company:

T. Dragičević

L. Geszti

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Periods ended 30 June 2006 and 2005

1. Basis of Preparation

The financial statements have been prepared in accordance with International Accounting Standard 34 — Interim Financial Reporting (IAS 34). The preparation of the Unaudited Condensed Consolidated Financial Statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the balance sheet date, and the reported amounts of revenue and expenses during the reporting period. Actual results could vary from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The interim financial data as of 30 June 2006 include, in the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of the results of the interim periods. Operating results for the six months ended 30 June 2006 are not necessarily indicative of the results that may be expected for the year ending 31 December 2006.

2. Significant Accounting Policies

The condensed consolidated financial statements have been prepared on the cost basis of accounting, except for certain financial instruments, which are stated at revalued amounts.

The accounting policies adopted in the preparation of the condensed financial statements as of 30 June 2006 and 2005 are consistent with those applied in the preparation of the consolidated financial statements for the years ended 31 December 2005 and 2004.

3. Segment Information

The following is an analysis of revenue and result for the period by business segment. The Group reports its primary segment information on the basis of its business segments.

	INA Group Revenue	
	30 June 2006 HRK millions	30 June 2005 HRK millions (restated)
Exploration and Production	2,448	1,992
Refining and Wholesale	5,746	4,939
Retail Services	2,530	2,107
Corporate and other	58	62
	10,782	9,100

3. Segment Information (continued)

	Exploration and Production	Refining and Wholesale	Retail Services	Corporate Services and Processes Functions	Eliminations	Total
January — June 2006						
External sales	2,448	5,746	2,530	58	—	10,782
Intrasegmental sales	1,243	2,087	28	381	(3,739)	—
Total revenue:	3,691	7,833	2,558	439	(3,739)	10,782
Operating expenses, net of other operating income	(2,723)	(7,805)	(2,566)	(759)	3,739	(10,114)
Profit/(Loss) from operations	968	28	(8)	(320)	—	668
Financial income						109
Profit before tax						777
Current tax expense						(147)
Net profit for the period						630
January — June 2005						
External sales	1,992	4,939	2,107	62	—	9,100
Intrasegmental sales	953	1,626	3	382	(2,964)	—
Total revenue:	2,945	6,565	2,110	444	(2,964)	9,100
Operating expenses, net of other operating income	(2,286)	(6,531)	(2,153)	(594)	2,964	(8,600)
Profit/(Loss) from operations	659	34	(43)	(150)	—	500
Finance cost						(87)
Profit before tax						413
Current tax expense						(74)
Net profit for the period						339

4. Result for the Period

In the period January-June 2006, INA Group recorded profits from operations in the amount of HRK 668 million, of which HRK 293 million in the first quarter and HRK 375 million in the second quarter, whereas the comparative prior-year figure amounted to HRK 500 million, of which HRK 228 million in the first quarter and HRK 272 million in the second quarter.

In the 2006 result improved by HRK 168 million, mostly due to the more favourable gross margin resulting from prices increase in response to rising cost of goods purchased.

Refining and Wholesale is the largest contributor to the Group's sales, accounting for approximately 55 per cent. of the total sales in first six month of 2006. Total sales of the business segment increased by 23 per cent.. This increase is a result of price increases, which averaged 32 per cent.. Sales of the Refining and Wholesale segment rose 23 per cent. although production volumes in first six months of 2006 decreased by 7 per cent. in comparison with the first six month of 2005, due to lower production at Rijeka refinery and decreased sale of fuel oil to HEP. Planned maintenance shutdown took place in Rijeka refinery from mid April until mid June 2006. The Sisak refinery was operated at 98 per cent. of upgrading capacity to make up for the loss of capacity at Rijeka.

Although the Retail division's contribution to total Group sales decreased by 0.3 per cent. during first six month of 2006, Retail sales increased by 21 per cent. in the first six month of 2006 in comparison with the first six month of 2005 due to an increase in average selling prices of 19 per cent.. Retail prices are regulated by the Ministry of Economy, Labour and Entrepreneurship through the application of a pricing formula, which also takes onto

4. Result for the Period (continued)

account rising crude oil prices. Retail sales volumes increased by approximately 3 percent during the first six months of 2006 versus the first six months of 2005.

Additionally, increase of profits from operations resulted from significantly lower impairment charge under IAS 36 and higher income from own consumption, which increased from HRK 115 million in 2005 to HRK 342 million in 2006, mainly relating to the income of Crosco and STSI arising on capitalization of internal resources.

5. Cost of Raw Materials, Consumables and Energy

In the period January — June 2005, the average price of imported crude oil was 40.9 USD/bbl and was charged to the same extent to the cost of raw material, which accounted for 80 per cent of the total cost of raw material, consumables and energy.

In the period January — June 2006, the average price of imported crude oil was 58.5 USD/bbl and was charged to the same extent to the cost of raw material, which accounts for 74 per cent of the total cost of raw material, consumables and energy.

The cost of raw material rose by approximately 20 per cent (HRK 800 million) comparing the two periods in the respective years, mainly as a result of the increase in the cost of imported crude oil from 40 USD/bbl to 72 USD/bbl.

6. Cost of Goods Sold

The increase of the cost of goods sold in the first half of the year (January — June 2006) is a result of the increase in the prices of imported oil products approximated to 18 per cent and of larger quantities of refined products imported to supply the market in April and May, when the overhaul at the Rijeka Refinery was in progress, as opposed to January-June 2005, when no such influencing factors existed. Another contributing factor were around 28 percent higher prices of imported natural gas compared to the average prices of the products in the period January-June 2005.

7. Current and Deferred Taxes

Interim period tax charge and deferred tax are accrued based on actual results and the effective income tax rate of 18.9% for period ended 30 June 2006 and 17.9% for the period ended 30 June 2005.

8. Earnings per Share

	Six-month period ended	
	30 June 2006 HRK millions	**30 June 2005 HRK millions**
Earnings for the purpose of calculating earnings/(losses) per share for the period attributable to shareholders	630	339
Number of shares	10	10
Earnings per share	HRK 63	HRK 34

9. Intangible Assets

The Group investments in intangible assets in the period ended 30 June 2006 amount to HRK 159 million. HRK 200 million were transferred to the Group property, plant and equipment account.

In the period ended 30 June 2005 the Group invested HRK 119 million in intangible assets, whereas HRK 958 million were transferred to the Group property, plant and equipment account.

10. Property, Plant and Equipment

During the period ended 30 June 2006 the Group spent HRK 1,095 million on additions to property, plant and equipment. It also disposed certain of its assets with the book value of HRK 57 million, most of which in respect of property, plant and equipment, out of which HRK 36 million was reclassified to inventories.

During the period ended 30 June 2005 the Group spent HRK 668 million on property, plant and equipment additions.

11. Available for Sale Investment

The net book value of investment in Janaf rose HRK 102 million compared to the balance at 31 December 2005, resulting from the increase in the market value of Janaf shares quoted on Zagreb Stock Exchange. The market value of Janaf shares as of 31 December 2004 and 30 June 2005 amounted to HRK 1,510 and HRK 1,850, respectively, and as of 31 December 2005 and as of 30 June 2006 it amounted to HRK 1,890.00 and HRK 2,749.90, respectively.

12. Share Capital

The share capital of the parent company INA Industrija Nafte d.d. amounted to HRK 9,000 thousand as of 30 June 2006 and 30 June 2005. There were no movements in the share capital of the Company in either the current or the prior six-month period.

The share capital of the Company was converted to Croatian kunas on the registration of the Company at the Commercial Court in April 1995.

The majority shareholder of the Company is the Republic of Croatia, and the share capital certificates are held at the Croatian National Bank. Based on the Decision of the Commercial Court from October 2001, the share capital of the Company was adjusted to HRK 9,000 million. The adjustment was made by a transfer from other reserves.

13. Revaluation Reserve

Movements on revaluation reserves during six months of 2006 and 2005 were as follows:

	HRK millions
At 1 January 2005	(141)
Gains/Losses on investments available for sale	40
At 30 June 2005	(101)

	HRK millions
At 1 January 2006	(96)
Gains/Losses on investments available for sale	101
At 30 June 2006	5

14. Other Reserves

Movements on reserves during six months of 2006 and 2005 were as follows:

	Combined reserves at 31 December 1993 HRK millions	Foreign currency translation reserve HRK millions	Other reserves HRK millions	Total HRK millions
At 31 December 2005	2,132	(189)	447	2,390
Movements during six months of 2006	—	(34)	—	(34)
At 30 June 2006	2,132	(223)	447	2,356

14. Other Reserves (continued)

	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 six months of 2005	—	32	—	32
At 30 June 2005	2,132	(198)	447	2,381

15. Retained Earnings or Accumulated Losses

	INA Group retained earnings/ (accumulated losses) HRK millions
At 1 January 2005 (restated)	(446)
Adoption of revised International Financials Reporting Standards	44
At 1 January 2005 (updated)	(402)
Profit for the year	339
At 30 June 2005	(63)
Profit for the year	546
At 1 January 2006	483
Profit for the year	630
At 30 June 2006	1,113

16. Long-Term Loans

During the period ended 30 June 2005 the Group drew a new portion of the EBRD loan in the amount of EUR 4.1 million, or HRK 31 million, at LIBOR plus 1 pp, repayable within 6 years. The proceeds were intended to finance environmental projects at INA.

In the period ended 30 June 2005, HRK 227 million of loan debt was repaid, of which HRK 3 million in respect of the EBRD loan, HRK 134 million in respect of the MIZUHO/PBZ loans, and HRK 90 million in respect of other bank borrowings.

During the period ended 30 June 2006 the Group drew a new tranche from Mizuho/PBZ in the amount of USD 85 million, or HRK 510 million, at LIBOR plus 0.70 pp, repayable within 5 years. The proceeds were used for general financing purposes.

In the period ended 30 June 2006, repayments to other banks amounted to HRK 233 million, of which HRK 40 in respect of the EBRD loan, HRK 150 million in respect of the MIZUHO/PBZ loans, and HRK 43 million in respect of other banks.

17. Long-Term Provisions

The following changes occurred in the period under review:

- Based on the VAT inspection findings report, provisions were recorded in the books of INA d.d. in respect of value added tax not calculated on the technological surplus above the permissible limit at the Sisak Refinery as follows:

17. Long-Term Provisions (continued)

- As of 31 December 2004, a provision of HRK 115 million was recorded in respect of a contingent VAT liability and HRK 29 million in respect of penalty interest. The total provision amounted to HRK 144 million.
- In the period 31 December 2004 – 30 June 2005 a provision for late payment interest was recorded in the amount of HRK 41 million.
- As of 31 December 2005, a total of HRK 193 million were accrued on the basis of additional penalty interest provision of HRK 8 million, which was made in the period from June 2005 to 31 December 2005;
- In the period 31 December 2005 – 30 June 2006 INA — Industrija nafte d.d. paid value added tax in the amount of HRK 125 million, and the difference of HRK 68 million was credited to the result for the period.

- Changes in the parameters (mostly affecting a decrease of inflation rate, increase of growth rates and fluctuations in exchange rate of USD/HRK affecting the value of oil reserves) for the calculation of decommissioning provision resulted in a decrease of the provision at 30 June 2006 by HRK 177 million compared to 31 December 2005.

Changes in the parameters (mostly affecting a decrease of inflation rate, increase of growth rates and fluctuations in exchange rate of USD/HRK affecting the value of oil reserves) for the calculation of decommissioning provision resulted in a decrease of the provision at 30 June 2005 by HRK 46 million compared to 31 December 2004.

The decrease in long-term provisions in the period ended 30 June 2005 versus 31 December 2005 is a result of reassessment of decommissioning provision.

18. Bank Loans and Overdrafts

	Security/ Guarantee	30 June 2006 HRK millions	31 December 2005 HRK millions	30 June 2005 HRK millions	31 December 2004 HRK millions
INA Group					
Privredna banka Zagreb, Zagreb (HRK)		22	24	52	48
Zagrebačka banka, Zagreb (EUR, USD, HRK)		58	63	34	32
Raiffeisenbank Zagreb (EUR, USD, HRK)		47	48	—	—
OTP banka, Zadar		58	—	—	—
HVB Splitska banka		—	—	46	56
Other short-term loans and overdrafts		77	18	37	52
Total INA Matica		262	153	169	188
BNP Paribas (US$)	INA d.d. guarantee	127	209	467	—
Nova Ljubljanska banka, Ljubljana (SIT)	—	—	5	—	7
Bank Tokyo Mitsubishi (US$)	INA d.d. guarantee	65	169	—	—
Fortis Bank (US$)	INA d.d. guarantee	130	—	—	—
Natexis Bank (US$)	INA d.d. guarantee	332	—	170	—
Probanka d.d (SIT)	—	—	—	—	3
BACA		33	—	—	—
Raiffeisenbank Zagreb (EUR, US$ and HRK)	—	29	17	37	38
Bank Austria Creditanstalt (US$)	INA d.d. guarantee	147	321	—	—
Zagrebačka banka, Zagreb (EUR, US$,HRK)	—	15	11	36	18
Privredna banka Zagreb, Zagreb (HRK)	—	12	11	17	5
Bank Muscat (US$)	—	—	3	12	9
Hrvatska poštanska banka (EUR and HRK)	—	1	—	22	11
Splitska banka (US$, HRK)	—	51	41	65	61
Slavonska banka Osijek	—	12	12	10	—
Other overdrafts and short-term loans		4	6	9	5
Total INA Group		1,220	958	1,014	345

In the period ended 30 June 2005, a decrease was recorded at INA Matica due to reduced overdraft facility.

In the period ended 30 June 2006, an increase was recorded at INA Matica as a result of higher overdraft facility (HRK 75 million), use of new short-term loans from HVB Splitska banka (HRK 44 million, or EUR 6 million). The loan raised is repayable on 29 June 2007, at an interest rate Euribor + 1.5. Another loan was raised at OTP banka (HRK 61 million, or USD 10 million), repayable on 1 February 2007, at an interest rate of LIBOR for USD + 1.15 pp.

Loans in the amount of HRK 61 million were repaid during the period ended 30 June 2006 in accordance with the previously disclosed terms and conditions.

19. Commitments

There have been no changes in commitments compared to those presented in the financial statements for the year ended 31 December 2005.

Purchase obligations under take or buy contracts

On 1 June 2005 Ina Industrija Nafte d.d. concluded the contract with GAZEXPORT Ltd., Moscow for the supply of 1.2 bcm per year of natural gas under take or pay commitment until 2010. As of 30 June 2006 the Company's respective obligation is HRK 8 billion for the remaining 5 years.

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

Gas selling Contracts

Set out below is detailed information about the current gas sale arrangements.

I. In the period from 30 June 2005 to the expiry of the underlying contract

1. Long-term contract between INA and HEP d.d. Zagreb
    a) Contracted supply quantity: 700,000,000 m3/a year
    b) Annual sales: US$83,824,107 or HRK 469,415,000
    c) Contract period: until 2015
    d) Estimated revenue for the remaining period: HR 22,708,329,641
2. Long-term contract between INA and PETROKEMIJA d.d. Kutina
    a) Contracted supply quantity: 460,000,000 m3/a year
    b) Annual sales: US$64,606,534 or HRK 361,796,589
    c) Contract period: until 2006
    d) Estimated revenue for the remaining period: HRK 529,395,223
3. Long-term contract between INA and PLIVA d.d. Zagreb
    a) Contracted supply quantity: 14,000,000 m3/a year
    b) Annual sales: US$2,189,821 or HRK 12,263,000
    c) Contract period: until 2013
    d) Estimated revenue for the remaining period: HRK 246,272,837

II. In the period from 30 June 2006 to the expiry of the underlying contract

1. Long-term contract between INA and HEP d.d. Zagreb
    a) Contracted supply quantity: 700,000,000 m3/a year
    b) Annual sales: US$81,861,236 or HRK 469,415,000
    c) Contract period: until 2015
    d) Estimated revenue for the remaining period: HRK 22,180,452,369
2. Long-term contract between INA and PETROKEMIJA d.d. Kutina
    a) Contracted supply quantity: 460,000,000 m3/a year
    b) Annual sales: US$64,606,534 or HRK 361,796,589

19. Commitments (continued)

c) Contract period: until 2006

d) Estimated revenue for the remaining period: HRK 191,327,531

3. Long-term contract between INA and PLIVA d.d. Zagreb

a) Contracted supply quantity: 14,000,000 m3/a year

b) Annual sales: US$2,189,821 or HRK 12,263,000

c) Contract period: until 2013

d) Estimated revenue for the remaining period: HRK 233,372,867

20. Contingent Liabilties

There have been no changes in contingent liabilities compared to those presented in the financial statements for the year ended 31 December 2005.

21. Related Party Transactions

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

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

	Sale of goods and services 30 June		Purchase of goods 30 June		Amounts owed by related parties 30 June		Amounts owed to related parties 30 June	
INA Matica Business partner	**2006 HRK millions**	**2005 HRK millions**	**2006 HRK millions**	**2005 HRK millions**	**2006 HRK millions**	**2005 HRK millions**	**2006 HRK millions**	**2005 HRK millions**
Foreign related companies								
Interina Ltd Guernsey	874	697	446	321	7	85	455	164
Holdina Sarajevo	255	196	—	—	78	66	—	1
Interina d.o.o. Mostar	112	91	—	—	34	41	—	—
Interina d.o.o. Ljubljana	47	30	—	—	13	15	—	—
Interina Ltd London	—	56	3,719	3,542	—	—	1,439	2,056
Domestic related companies								
Crosco Group	10	4	70	84	3	7	93	104
Osijek Petrol d.d.	636	220	—	—	164	120	—	1
Crobenz d.d. Zagreb	339	220	50	—	83	59	—	1
Proplin d.o.o. Zagreb	201	131	48	52	51	69	—	11
STSI d.o.o. Zagreb	10	3	141	260	3	7	98	193
Maziva Zagreb d.o.o. Zagreb	24	14	7	24	32	23	10	23

21. Related Party Transactions (continued)

INA Matica Business partner	Sale of goods and services 30 June 2006 HRK millions	Sale of goods and services 30 June 2005 HRK millions	Purchase of goods 30 June 2006 HRK millions	Purchase of goods 30 June 2005 HRK millions	Amounts owed by related parties 30 June 2006 HRK millions	Amounts owed by related parties 30 June 2005 HRK millions	Amounts owed to related parties 30 June 2006 HRK millions	Amounts owed to related parties 30 June 2005 HRK millions
Companies available for sale								
JANAF d.d. Zagreb	—	—	—	—	—	—	4	—
Strategic partner MOL Plc	44	41	1,062	271	7	15	266	21
Companies controlled by the State								
Croatian Railways	80	59	3	3	75	53	4	8
Croatian Electricity (HEP)	581	577	27	37	92	222	3	10
Croatian Telecom	2	2	12	10	2	3	—	2
Croatia osiguranje	1	1	26	14	—	—	3	2
Croatian Post (Hrvatska pošta)	1	1	2	2	2	2	—	1
MORH	40	28	—	—	22	33	—	—
Hrvatske Šume	8	4	—	—	8	7	—	—
Jadrolinija	48	39	1	1	47	24	1	1
Narodne novine	—	—	2	5	—	—	1	6
Croatian Radio & Television	—	—	—	—	—	—	—	2
Plovput	—	—	—	—	—	—	—	—
Croatia Airlines	81	66	—	—	31	19	—	—
Petrokemija Kutina	338	239	—	—	116	138	—	—
Plinacro	3	3	173	179	1	—	70	18
Željezara Sisak	9	1	—	—	8	10	—	—

22. Subsequent Events

Purchase of new investment

On 8 September 2006 INA Matica, together with MOL under a MOL/INA Consortium, entered into a Recapitalization Agreement for the acquisition of Energopetrol d.d. Sarajevo for the total amount of KM 10.2 million payable equally by both parties, pursuant to which the Consortium will acquire a 67% share of Energopetrol d.d. shared equally by both parties (33.5% owned by each party).

The subjects of acquisition are also investments. The Consortium shall invest KM 150 million in the following three-year period:

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

The Consortium also agreed to cover all liabilities of Energopetrol d.d. in the amount of KM 60.195 million.

22. Subsequent Events (continued)

Participation and Joint Operating Agreement

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

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

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

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

Krajinapetrol additional investment

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

Changes in applicable laws and regulations

Effective 7 July 2006 new legislation was introduced in the Republic of Croatia (Regulation on Pricing of Oil Derivatives: Official Gazette No. 77, 07/07/2006) introducing a new component in the wholesale price relating to the financing of Croatian Agency for Obligatory Reserve of Oil and Oil Derivatives.

It requires the company to pay HRK 120 per sold ton of oil and oil derivatives.

Consequently, the Group started to incur additional cost of approximately HRK 20 million per month.

Strategic reserves

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

23. Approval of the Financial Statements

These financial statements were approved by the Board and authorized for issue on 31 October 2006.

Signed on behalf of the Company:

L. Geszti

T. Dragičević

PGL | engineering geoscience

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Our Ref: 2545CVINA

Date: 3 November 2006

Dear Sirs

Auditors Report — Audit of INA domestic and International Oil and Gas reserves

Production Geoscience Ltd (PGL) has completed an audit of the domestic and international oil and gas reserves of INA Industrija Nafte, d.d. ("lNA") as at December 31, 2005 ("effective reporting date"). The audit was conducted according to Tender No. SN-3069/05, dated November 16th, 2005, which required PGL to:

- undertake a reserves audit for 35 domestic onshore oil fields, 22 domestic onshore gas fields, 6 domestic offshore gas fields, 8 international oil field projects and 3 international gas field projects to USA Securities and Exchange Commission (SEC) guidelines (before and after tax) for proven reserves and Society of Petroleum Engineers/World Petroleum Congress (SPE/WPC) regulations on reserves categorisation for probable and possible reserves
- establish the Net Present Value NPV_{10} of the reserves

PGL reviewed technical information:

- presented by representatives of INA during a visit to INA's Zagreb offices during the first week of February, 2006
- forwarded subsequently to PGL by email or via FTP site

PGL derived independently, production forecasts for each asset and compared with those supplied by lNA. Based on the forecasts the NPV_{10} was calculated both before and after tax using hydrocarbon price and cost information supplied by INA.

All economic valuations have been calculated, on a before and after tax basis, using INA's estimates of relevant oil, gas and condensate prices. These prices have not been independently reviewed by PGL, however they do appear to be reasonable, if not conservative, in the volatile oil and gas market conditions at the time of the audit. Cost data for capital and operating costs was provided by lNA. PGL has not audited the cost data as we do not have expertise in detailed cost estimation for domestic Croatia.

For the reporting of Proved Reserves, the procedures followed in conducting the audit are based on the reserve definitions stated in the United States Securities Exchange Commission ("SEC") Regulation S-X, Rule 4-10, "Financial Accounting and reporting for Oil and Gas producing Activities Pursuant to the Federal

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Securities Laws and the Energy policy and Conservation Act of 1975". lt is important to note, however, that this report includes Proved, Probable and Possible reserves determinations, and that the SEC regulations prohibit disclosure of unproven oil and gas reserves volumes and values.

The main focus of the audit was on the proved reserves in each asset as presented by lNA. Non proven reserves were in most cases allocated to the Probable category. Possible reserves were only identified by INA in their submissions to PGL in a few instances and no additional work to identify further possible reserves was undertaken by PGL. This does not mean there are not additional reserves in the possible category but that PGL were not presented by INA with information to suggest any substantial reserves in that category.

The procedures followed in conducting the audit of Probable and Possible reserves are based on "Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserve Information", published by the Society of Petroleum Engineers (SPE) in June 2001. These procedures also incorporate and reference the reserve definitions adopted by the SPE and World Petroleum Council (WPC) in March 1997.

PGL has made the following reserves determinations.

The total company reserves volumes and values as at December 31, 2005 are summarised in the following table:

Table 1: INA Share of Total Domestic and International Audited Reserves at 2005-12-31

		Proven	Proven plus Probable	Proven plus Probable plus Possible
Liquids				
Crude Oil	(10^3m^3)	8148	15064	18401
Condensate	(10^3m^3)	2940	4303	4303
Total Liquids	(10^3m^3)	11088	19366	22704
Gas				
Associated Gas	($10^6m^3{}_{sc}$)	844	2588	2888
Non Associated Gas	($10^6m^3{}_{sc}$)	28944	42268	42268
Total Gas	($10^6m^3{}_{sc}$)	29788	44856	45156
NPV (10%) BT	(10^6US$)	2549	3664	3862
NPV (10%) AT	(10^6US$)	2126	3122	3280

These values represent INA's share of gross reserve volumes and value before and after tax. In the case of the Palmyra project (Syria), the INA share has been taken as 50% of the full project volumes.

These volumes can be compared to the summary per area for Proven and Probable reserves:

Table 2 PGL Audit Oil, Condensate and Gas Proven and Probable Reserves at 2005-12-31

	Proven developed Producing			Total Proven			Proven & Probable		
Field/Area	**Oil Reserves (10^3m^3)**	**Gas Reserves (10^3m^3sc)**	**Condensate Reserves (10^3m^3)**	**Oil Reserves (10^3m^3)**	**Gas Reserves (10^3m^3sc)**	**Condensate Reserves (10^3m^3)**	**Oil Reserves (10^3m^3)**	**Gas Reserves (10^3m^3sc)**	**Condensate Reserves (10^3m^3)**
Domestic Oil	6500	1437	87	7079	1522	87	12998	3560	112
Domestic Gas		13932	2778		13991	2,852	0	15142	2872
Offshore Gas	0	9653	0	0	14275	0	0	15780	0
Total Domestic	6500	25022	2865	7079	29788	2940	12998	34482	2,984
International not Syria	913	0		913	0		1305	0	
International Syria	66	0	0	157	0	0	760	10,374	1319
Total	7478	26022	2865	8148	29788	2940	15064	44856	4303

Proved + Probable gas reserves increased by 8.98 10^9m^3 overall, compared to figures supplied for end 2004, due mostly (7.6 10^9m^3) to changes in the international gas field reserves in Syria, as increased reserves were booked in the Jihar field and contributions from the Palmyra and Al-Mahr are now included in the audit, and to a lesser extent (1.91 10^9m^3) the addition of Probable gas reserves in the Offshore Gas fields.

For the purposes of Prospectus Rule 5.5.4R(2)(f) we are responsible for this report as part of the Prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with Annex I item 1.2 of the Prospectus Directive Regulation.

Yours sincerely

Production Geoscience Ltd

Kenneth T. Black
Director

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