



NATURAL GAS IN CROATIA

REPORT 2004

INTRODUCTION

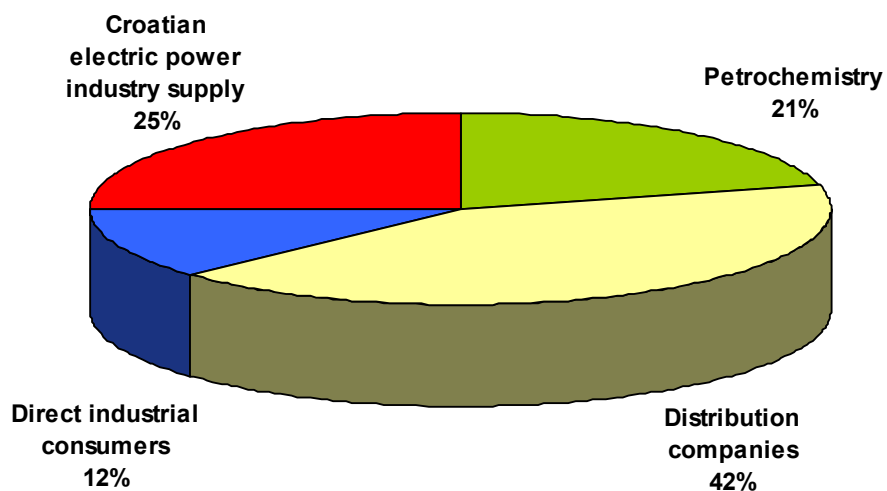
The last 2004, regarding natural gas activity along with the moderate increase of natural gas consumption, was characterised by continuous activities on the preparation of the legal framework and implementation of restructuring and reorganisation. The significant swing was given to the investments in the gas transportation system, but also the new north Adriatic gas fields.

1.NATURAL GAS SALE

The whole sale of natural gas at Croatian market in the year 2004 increased approximately for 6% in comparison with the year 2003, and it was 2,8 Bcm. In the sector of distribution consumers and direct industrial consumers, the consumption remained on the same level. However, in the sectors of the electric power industry and petrochemistry, the consumption increased for 14%.

NATURAL GAS SALE 2004.

	Bcm
Petrochemistry	0,588
Distribution companies	1,176
Direct industrial consumers	0,336
Croatian electric power industry supply	0,7
TOTAL	2,8



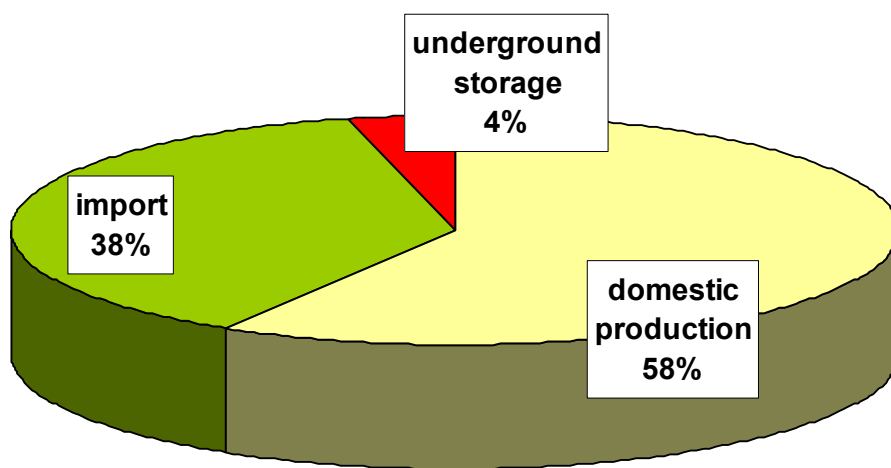
2. NATURAL GAS SUPPLY

The entire needs of Croatian natural gas market are mostly covered by domestic production which makes 59%, 37% by the import from Russia, and the rest of 4% by the accumulations of the underground storage.

The supply from domestic production was realised by 1,32 Bcm from the on shore – Pannonian basin, and 0,32 Bcm from the off shore - north Adriatic gas fields.

NATURAL GAS SUPPLY 2004.

	Bcm
domestic production	1,64
production Panon	1,32
production north Adriatic	0,32
import	1,05
underground storage	0,11
TOTAL	2,80



3. LEGISLATION AND RESTRUCTURING

The package of energy laws brought by the Croatian Parliament in July 2001, and the start of their real implementation since January 2002, meant great step forward in creating the legal framework for the arrangement of the complete natural gas business.

This package form: Energy Law, Gas Market Law, Law on Energy Regulatory Agency, Law on Electricity Market and Law on Oil and Oil Derivatives Market.

However, this process of the legal arrangement of the complete gas activities has not stopped, but has continued following the needs of reconstruction and reorganisation towards the open natural gas market.

It resulted in bringing the following laws this year:

- The Law on the Amendments of the Energy Law
- The Law on the Regulation of Energy Activities

And the Law on the Amendments of the Gas Market Law has been prepared.

It has to be emphasised that the forthcoming foundation of the Energy Community of the south-east Europe, as the result of the provisions of the Energy Community Treaty, will have the outstanding importance for all these processes.

4. DEVELOPMENT AND INVESTMENTS

The past year 2004, is extraordinary important for the development and construction of the new gas transportation system of the Republic of Croatia. *The plan of development, construction and modernisation of the gas transportation system of the Republic of Croatia from 2002 till 2011*, which was approved by the Ministry of the Economy, Labor and Entrepreneurship in August 2002, as well as its implementation for the period from 2002 till 2006., as entered the final phase, the phase of construction.

The level of investments for the planned ten-year period is 450 mil USD, and in the first five-year period 200 mil USD.

The financing of the first five-year investment cycle is ensured out of own profit based on the transport tariff, and for the bridging in the year of the concentrated investments, the European Investment Bank loan has been granted in the amount of 90 mil EUR.

The significant investment activities have also taken place in the production start-up of some north Adriatic gas fields (INAGIP).