

SUPERVISORY BOARD

Av. V. Holjevca 10
ZAGREB

Number: 3-6/101

Date: 2012.

**REPORT
ON SUPERVISION OF CONDUCTING INA'S BUSINESSES IN 2011**

Within the scope of its legal and statutory responsibility, during 2011, the Supervisory Board supervised business activities of INA – Industrija nafte d.d. as a share based company.

During 2011, the Supervisory Board was comprised of the following members:

1. **Davor Štern**, President*
2. **György Mosonyi**, Vice President
3. **József Molnar**, member
4. **Ábel Galács**, member
5. **Gordana Sekulić**, member
6. **Damir Vandelić**, member
7. **József Simola**, member
8. **Oszkár Világi**, member
9. **Maja Rilović**, member**

* At the Extraordinary General Assembly meeting of INA, d.d. held on 17 January 2011, new members of the Supervisory Board of INA, d.d. were appointed: Mr Davor Štern, Mr Vandelić and Ms Sekulić instead of Mr Ivan Šuker, Mr Pankrećić and Mr Ivić. After the General Assembly, the Supervisory Board elected Mr Štern for the President of the Supervisory Board at its constitutive meeting.

** Ms Rilović was elected to the Supervisory Board by the employees on 24 May 2011.

Supervision of INA's business was carried out by convening the total of 13 (thirteen) Supervisory Board meetings (17.01., 10.02., 25.03., 08.04., 13.04., 12.05., 07.06., 10.06., 06.07., 19.07., 12.09., 01.12., 13.12.) 5 (five) of which were held by circular voting (voting using written procedure).

The **Audit Committee** participated in the supervision of the Company's business as well, as the subsidiary body of the Supervisory Board, and held 4 (four) meetings in 2011, at which it reviewed short periodic financial statements (*Flash Reports*), audit results, reflected on the performance of external auditor and reviewed Internal Audit Status Reports.

In 2011, the Audit Committee comprised of the following members:

1. **Ljubo Jurčić**, president,
2. **Damir Vandelić**, member*,
3. **József Simola**, member.

* Mr. József Molnar served as the member of the Supervisory Board until 19 July 2011, whereas Mr Vandelić was appointed a new member of the Board on the same day.

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Zagrebačka banka d.d.
HVB Splitaska banka d.d.
OTP BANKA HRVATSKA d.d. ZADAR

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Žiro rač. - Giro acc
2340009-1100022902
2484008-1100819483
2360000-1101303595
2330003-1100204546
2407000-1100152148

Trgovački sud u Zagrebu
Commercial Court in Zagreb
MBS: 080000604
Uplaćen temeljni kapital – Paid capital stock
9.000.000.000,00 kn - HRK
Broj izdanih dionica / Nominalna vrijednost
No. of issued shares / Nominal value
10.000.000 / 900,00 kn - HRK
Natični broj – Reg. No. 3586243

Supervision was performed regularly in compliance with the law and statutory provisions, and comprised of the following activities:

- 1. Examination of and providing compliance for the annual Financial statements of INA d.d. and INA Group, and reporting to the General Assembly on the results of examining annual financial statements (for 2010 and 2011); as well as establishing of Reports for the first quarter, the first six months and the first nine-month period (in 2011).**

At the meetings, issues regarding business and development of INA d.d. and INA Group were discussed very extensively and argumentatively, and SB members expressed their views, which were aimed at improvement of efficiency of business operations, financial results and indicators, realization and intensification of investments into all business segments, increasing market shares in Croatia and the region, acceleration of modernization of refineries and retail network etc.

- 2. According to the provision of the Articles of Association of INA, d.d. (Article 17), the Supervisory Board provided prior consent for the decisions of the management Board, as follows:**

- **Accounting manual** (prior consent provided at the meeting held on 6 July 2011)
- **INA Group Business Plan for 2011** (at the meeting held on 25 March 2011) and **INA Group Business Plan for 2012** (at the meeting held on 13 December 2011)

- 3. Based on the companies Act (Article 250) the Supervisory Board paid particular attention to the review of specific business issues and supervision of the following:**

➤ **Corporate Governance:**

At its meeting held on 25 March 2011, INA Supervisory Board mandated the Management Board to provide a legal analysis of INA internal bylaws to establish whether they had been compliant to laws and legal regulations of the Republic of Croatia. The legal analysis was performed by the law firm Madirazza and Partners, according to the decision of the Management Board.

At its meeting held on 7 June 2011, the Supervisory Boards discussed the legal opinion prepared by the law firm Madirazza and Partners, and requested from the Management Board to amend the Opinion in order to clear out any identified or potentially unresolved inconsistencies.

The Supervisory Board discussed the updated legal opinion prepared by the law firm Madirazza and Partners at its meeting held on 12 September 2011; and acknowledged that INA Management Board at its meeting held on 29 July 2011, which was complemented by voting held by written procedure on 3 August 2011, unanimously adopted revision of the bylaws (*Rules of Procedure of the Executive Board of INA, d.d., Operational and Organisational Rules of INA Plc, List of decision-making authorities at INA, d.d.*), which were prepared with the support of the law firm Madirazza and Partners. At that meeting the Supervisory Board of INA, d.d accepted the presented amendments of the abovementioned bylaws with the majority vote, while four members of the Supervisory Board (three members appointed by Croatian Government and the workers' representative at the Supervisory Board) requested further harmonization of internal regulations with Croatian legal framework. With the approved changes, the task requested by the Supervisory Board regarding the revision of the above mentioned documents had been executed.

➤ **Presentation of the Development strategy for INA d.d**

Upon the Initiative of the SB at the meeting held on 8 April 2011, the Management Board prepared the document on the development strategy of INA for the period 2011-2015/20.

The Supervisory Board discussed development strategy of INA d.d at several meetings held on 12 May 2011 (*based on the strategy progress report*), on 7 June 2011 (*Supervisory Board received draft of discussion materials, and the stated discussion was postponed for the following meeting*), on 6 July 2011 and 13 December 2011 (*when the development strategy, approved by INA Management Board, was presented to the SB*).

At all of the meetings, members of the Supervisory Board exhaustively expressed their remarks and suggestions to the Management Board (verbally and in written). At the Supervisory Board meeting that was held on 13 December 2011, the Supervisory Board was informed that after several discussions at the Management Board, including the presentations and consultations with the Croatian Government (whose representatives had remarks of strategic character, as well as the SB members) and MOL as the majority shareholder, INA d.d. Management Board at its meeting held on 29 November 2011 approved the materials of the strategy for 2011-2015 with strategic goals, on which the investment public was informed.

➤ **Northern Adriatic and Syria Projects**

The Supervisory Board continuously received and discussed reports on the projects Northern Adriatic and Syria (on the critical issues of both projects in particular).

➤ **Report on CAPEX realization and cash flow**

The Supervisory Board requested, had been regularly informed and discussed the reasons for (non) realization of CAPEX and cash flow.

➤ **Reports on business operations and development of business division**

The Supervisory Board requested, discussed and was informed of:

- Business operations of the BD Refineries & marketing; modernization of Rijeka Oil Refinery and new units; proposal for establishment of the SB committee for drafting of the preliminary budget, and milestones for the investments into the continuation of the modernization of refineries.
- Oil trading (partially); project for rebranding of INA d.d. filling stations.
- Exploration activities of INA in Croatia; restructuring of the program for optimization of the portfolio of BD Exploration and production.
- Market position and competitiveness of INA at the domestic and foreign markets, plans for and construction and reconstruction status of INA filling stations; issues regarding filling station Vrbovsko,
- INA Group investments in maintaining units and equipment; causes and consequences of the fire that occurred at Sisak Oil refinery.
- Current issues regarding public procurements (concessions for exploration, HŽ).
- Business relations of INA and Tifon, DIOKI regarding the Belvedere hotel.
- Environmental protection, key factors, and necessary investments and costs.
- Process for procurement of goods and services and in relation to this, procurement of goods and service by direct dealing.
- Mode of work and efficiency of the Corporate Communications sector

➤ **Report on the development and business operations of the INA Group companies**

The Supervisory Board requested, was informed of, as well as discussed development and business operations of INA Group companies: Crosco d.o.o.(requested development strategy of the company with SWOT analysis, but did not receive it), acquisitions of

Rotary and DrillTrans by Crosco, STSI d.o.o., Maziva d.o.o., companies in London (FPC, Inter INA), Holdina d.o.o. Sarajevo.

➤ **Reports on legal and legislative affairs and procedures**

The Supervisory Board requested, was informed of and discussed the following issues:

- Long-term suspension of trading of INA shares at the Zagreb Stock Exchange, and Resolutions made by HANFA;
- Decisions by the Croatian Competition Agency regarding the jet fuel issues
- Mining Act, and concession fees ;
- Potential conflict of interest in performing managerial functions;
- Significance of the concentration of the undertakings that was approved by Croatian Competition Agency

➤ **Internal Audit Sector and Corporate Security Sector Status Reports**

The Supervisory Board had been regularly informed of, and discussed the Internal Audit Status Reports, and occasionally the reports of the Corporate Security Sector.

➤ **Reports on organizational issues and changes from the aspect of efficiency and benefit for INA, and particularly in relation to the position and the future of the workers**

The Supervisory Board requested, was informed of, and discussed the following issues:

- The status of the governing/organizational structure of INA; organization of the function of the strategic development and planning;
- The announced organizational changes (outsourcing and other) and particularly the issue regarding the future and the status of workers (establishment of Top Računovodstvo d.o.o. as a member of INA Group and issues regarding workers that remained at INA; restructuring of Slnaco d.o.o.; reintegration of Proplin; announcements on reduction of retail workers' salaries)

The Supervisory Board discussed workers' complaints who turned directly to the President and members of the SB. It had been agreed that the Management Board would reply to these letters and regularly inform the SB President thereof.

4. Supervisory Board decided on the recall and appointment of the members of the Management Board as follows:

➤ **At its 2nd meeting held on 10 February 2011 the SB recalled and appointed new members of INA, d.d. Management Board:**

By means of circular voting Supervisory Board of INA, d.d Tomislav Dragičević, Josip Petrović and Dubravko Tkačić were recalled from the duty of the members of the Management Board as of 10 February 2011. In addition, the mandate of Mr Lajos Alacs and Mr Atilla Holoda for the function of the members of the Management Board was extended until 1 April 2015. At the same meeting, three new members of the Management Board were appointed: Niko Dalić, Ivan Krešić and Davor Mayer, and all three members were appointed for a term as of 11 February 2011, ending on 1 April 2015.

➤ **At its 7th meeting held on 7 June 2011 SB appointed new members of the Management Board:**

It has been established that Lajos Alács and Atilla Holoda have resigned their positions as members of the Management Board with effect as of 8 June 2011 (ending with that date) and that Pál Zoltán Kara and Péter Ratatics were appointed members of INA, d.d. Management Board with effect as of 9 June 2011, for a term ending on 1 April 2015.

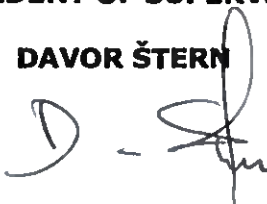
5. After examining the aforementioned financial reports, pursuant to the provisions of Article 300 c and d of the Companies Act and Article 27 of the Articles of Association of INA, the Supervisory Board unanimously adopted the following:

DECISIONS

1. Pursuant to Article 300c, paragraph 2 of the Companies Act, the Supervisory Board unanimously accepted the Independent Auditor's Report to the Stockholders of the Company (Draft) on audit of consolidated and unconsolidated financial statements together with the Opinion prepared by the Certified Auditor Mr. Branislav Vrtačnik from independent audit company Deloitte d.o.o., Zagreb, and according to the Opinion "the financial statements present fairly, in all material respects, the financial position of the Company and the Group as of 31 December 2011, and the result of its operation and its cash flow for the year then ended in accordance with International Financial Reporting Standards".
2. Pursuant to Article 300d paragraph 2 of the Companies Act and Article 27 of the Articles of Association of INA, the Supervisory Board unanimously adopted the material "Consolidated and unconsolidated financial statements and the Notes for the year ended 31 December 2011" based on the positive (unqualified) opinion of the independent auditor, Audit Committee and Management Board's Company Status Report in 2011.
3. The Supervisory Board agreed with the proposal of the Management Board that is forwarded to the General Assembly on the adoption of the Decision on distribution of profit as follows:
Based on the approved Financial Statements of INA-Industrija nafte, d.d. Zagreb, the profit for 2011 is established in the amount of HRK 1,966,735,423.48, which is allocated as follows:
 1. *Legal reserves in the amount of HRK 98,336,771.17 and*
 2. *Retained earnings in the amount of HRK 1,868,398,652.31*

PRESIDENT OF SUPERVISORY BOARD

DAVOR ŠTERN



VICE PRESIDENT OF SUPERVISORY BOARD

GYÖRGY MOSONYI



**Additional separate opinion of the part of the members of the Supervisory Board
(Mr. Štern, Ms. Sekulić, Ms Rilović and Mr. Vandelić):**

1. Members of the SB appointed by the Government of the Republic of Croatia and the workers' representative agree with the proposal for Decision on Distribution of profit into retained earnings in the amount of 1,868,398,652. 31, as submitted by INA Management Board, primarily based on:
 - The situation in Syria, which is very uncertain while taking into consideration, among other things, difficulty in collecting receivables from the Syria in the past few months (which may continue into 2012), and that INA d.d. uses the conservative manner of recognizing profit, as well as recognizing profit based on the settled receivables.
 - Obligations referred to in the Shareholders Agreement, due to which the following investments will be increased and intensified: acceleration of modernization of the refineries in Sisak and Rijeka; preparations and implementation of projects for exploration and production of oil and gas in the country and abroad, modernization of the retail network and activities for increasing market share of the derivatives in Croatia and the region.
2. Members of the Supervisory Board appointed based on the proposal put forth by the Croatian Government and workers' representative expressed the following remarks and comments related to Financial Statements and Report of Management Board:
 - The significant growth and depreciation, which in 2011 amounted to HRK 2.397 bn is based on the opinion of authorized auditor in line with IAS, and based on MB report it is in line with the business policy of INA Management Board, whereas the Auditor and the Management Board are considered to be responsible for the manner and calculation of depreciation.
 - Considering that only 60% of the investment plan for 2011 was executed, and particularly considering the obligations and development of strategic goals from the Shareholders Agreement, the Management Board should make additional efforts for preparation of projects and increasing investments in: acceleration of modernization of the refineries in Sisak and Rijeka; preparations and implementation of projects for exploration and production of oil and gas in the country and abroad, modernization of the retail network and activities for increasing market share of the derivatives in Croatia and the region.
 - The Management Board will ensure that Internal audit of the oil procurement is carried out urgently, no later than the end of June 2012.

DAVOR ŠTERN,
President of Supervisory Board

GORDANA SEKULIĆ,
Member of Supervisory Board

MAJA RILOVIĆ,
Member of Supervisory Board

DAMIR VANDELIĆ,
Member of Supervisory Board