



INDUSTRIJA NAFTE, d.d.

SUPERVISORY BOARD

Av. V. Holjevca 10
ZAGREB

Number:

Date: 2013.

Pursuant to Article 263, paragraph 3 and Article 300c of the Companies Act and Article 27 of the Articles of Association of INA – Industrija nafte, d.d., on the day of issuance of this report, the Supervisory Board of the company INA- Industrija nafte, d.d. Zagreb, Av. V. Holjevca 10, (hereinafter referred to as the "Company"), comprised of Mr. Siniša Petrović, President of the Supervisory Board, Mr. György Mosonyi, Vice President of the Supervisory Board, and members: Mr. József Molnar, Mr. Szabolcs I. Ferencz, Mr. Željko Perić, Mr. Mladen Proštenik, Mr. Ferenc Horváth, Mr. Oszkár Világi and Mr. Božo Mikuš, as the workers' representative, hereby submits to the General Assembly the following

REPORT ON THE SUPERVISION OF THE CONDUCT OF COMPANY'S BUSINESS

This report includes the following:

- manner and the extent in which the Supervisory Board performed supervision of the Company's business in 2012
- results of examination of the annual financial statements as at 31 December 2012, together with the Auditor's Report and proposal for utilization of the profit
- results of examination of the Management Board's report on the status of business operations in 2012
- results of examination of report on relations with the governing company and affiliated companies thereof.

Corporate profile

On 31 December 2012, according to the list of top ten shareholders of the Company, published by the Central Depository & Clearing Company, major securities holders of the Company are as follows: MOL HUNGARIAN OIL AND GAS PLC with the share of 49.08 % at ZAGREBAČKA BANKA D.D. in the Custody Account, AUDIO/REPUBLIKA HRVATSKA with the share of 44.84 % in the Nominee Account, SOCIETE GENERALE-SPLITSKA BANKA D.D./AZ OBVEZNI MIROVINSKI FOND holds 2.28% in the Custody Account, HYPO ALPE-ADRIA-BANK D.D. (/RAIFFEISEN OBVEZNI MIROVINSKI FOND holds 0.80% in the Custody Account, HYPO ALPE-ADRIA-BANK D.D. /PBZ CROATIA OSIGURANJE OBVEZNI MIROVINSKI FOND with a share of 0.64 % in the Custody Account, SOCIETE GENERALE-SPLITSKA BANKA D.D./ERSTE PLAVI OBVEZNI MIROVINSKI FOND with a share of 0.46% in the Custody Account, ZAGREBAČKA BANKA D.D. holds 0.14% in the Custody Account, ZAGREBAČKA BANKA D.D. holds 0.11% in the Custody Account, SOCIETE GENERALE-SPLITSKA BANKA D.D. /AZ PROFIT DOBROVOLJNI MIROVINSKI FOND with a share of 0.11% in the Custody Account and ZAGREBAČKA BANKA D.D. owns 0.06% share in the Custody Account.

Last update of the Company's top ten shareholders can be found on the Central Depository Agency's website.

The shares of the Company are included in depository services of the Central Depository & Clearing Company as of 9 October 2003.

INA, d.d.
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10 002 Zagreb p.p. 555
Hrvatska - Croatia
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Banka - Bank
Privredna banka Zagreb d.d.
Raiffeisenbank Austria d.d. Zagreb
Zagrebačka banka d.d.
HVB Splitska banka d.d.
OTP BANKA HRVATSKA d.d. ZADAR

Adresa - Address
Račkoga 6, 10000 Zagreb
Petrinjska 59, 10000 Zagreb
Paromlinska 2, 10000 Zagreb
R. Boškovića 16, 21000 Split
Domovinskog rata 3, 23000 Zadar

Žiro rač. - Giro acc
2340009-1100022902
2484008-1100619483
2360000-1101303595
2330003-1100204546
2407000-1100152149

Trgovački sud u Zagrebu
Commercial Court in Zagreb
MBS: 08000604
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
Matični broj – Reg. No. 3586243

The Company's shares have been listed on the Zagreb Stock Exchange since 1 December 2006. Global Depository Receipts (GDR), each representing one (1) INA, d.d. share, have been listed on the London Stock Exchange since 1 December 2006.

On the day of the issuance of this report, the Supervisory Board comprised of five members elected based on the proposal put forth by MOL Plc. to General Assembly, three members elected based on the proposal put forth by the Government of the Republic of Croatia and one member appointed by the Works Council of INA, d.d.

Supervisory Board

In 2012, changes of the members of the Supervisory of the Company were the following:

Members of the Supervisory Board, Mr. Ábel Galács and Mr. József Simola were recalled as of 12 April 2012.

Mr. Szabolcs I. Ferencz and Mr. Ferenc Horváth were elected members of the Supervisory Board as of 12 April 2012.

On 18 December 2012, the following members of the Supervisory Board of INA, d.d. were recalled:

- Davor Štern, President
- György Mosonyi, Vice President
- József Molnar, member
- Szabolcs I. Ferencz, member
- Gordana Sekulić, member
- Damir Vandelić, member
- Ferenc Horváth, member
- Oszkár Világi, member

While on the same day, the following members of the Supervisory Board of INA, d.d. were appointed:

- Siniša Petrović,
- György Mosonyi,
- József Molnar,
- Szabolcs I. Ferencz,
- Željko Perić,
- Mladen Proštenik,
- Ferenc Horváth,
- Oszkár Világi,

Further, on the constitutive meeting of the Supervisory Board Mr. Siniša Petrović was elected as the president, while Mr. György Mosonyi was elected as vice president.

Audit Committee

The Audit Committee participated in the supervision of the Company's business as well, acting as the subsidiary body of the Supervisory Board, and in 2012 it held 6 (six) meetings, 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.

On the day of the issuance of this report, members of this Committee were as follows: Mr. Željko Perić, Audit Committee Chairman, Mr. József Molnar, Mr. József Simola and Mr. Damir Vandelić, Audit Committee Members.

On 18 December 2012, the following INA, d.d. Audit Committee members were recalled:

- Ljubo Jurčić, Chairman
- Damir Vandelić, member
- József Simola, member

Pursuant to Decision rendered by the SB, dated 18 December 2012, the number of Audit Committee members increased from 3 members to 4, and the following members were appointed:

- Željko Perić, Chairman
- Damir Vandelić, member
- József Simola, member
- József Molnar, member

Management Board

On the day of the issuance of this report, the Management Board of the Company comprised of six (6) members.

Members of the Management Board were as follows: Mr. Zoltán Sándor Áldott, President of the Management Board, Mr. Niko Dalić, Mr. Pál Zoltán Kara, Mr. Davor Mayer, Mr. Péter Ratatics and Mr. Ivan Krešić, members of the Management Board of the Company.

Supervision conducted in 2012

Within the scope of its legal and statutory responsibility, in 2012 the Supervisory Board supervised the conduct of business of INA – Industrija nafte d.d. as a share based company.

The Supervisory Board supervised the conduct of the Company's business by holding the total of 8 (eight) meetings, 3 (three) of which were held by circular vote.

Supervising activities were performed regularly in compliance with the law and statutory requirement by reviewing Management Board's reports on conducting the business of INA d.d. and INA Group (quarterly, semi-annual and annual reports) and discussions on following issues and matters:

1. **Pursuant 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:**
 - **Amendments to the Rules of Procedure of the Management Board of INA-Industrija nafte dd (Article 5, item 3)** related to entering into agreements where the obligation of payment in the term exceeding two years, instead of one year, is taken (rendered at the 2nd meeting of the Supervisory Board held on 11 April 2012)
2. **The Supervisory Board paid particular attention to the review and supervision of specific business issues and following topics:**
 - a. **Report on CAPEX realization and cash flow** (continuous reporting)
 - b. **Report on Northern Adriatic and Syria Projects** (continuous reporting)
 - c. **Business Review of Upstream**, which included the following:

- Report on the hydrocarbons reserves and focus on estimated damages in Syria, Egypt and Libya and proposed measures for intensification of exploration and production of hydrocarbon in Croatia;
 - Report on the estimated threat to the business and development of INA by companies which are planning expansion to Croatian oil products market, exploration and production of hydrocarbon market and others, and activities undertaken and planned to be undertaken by the Management Board
- d. Business Review of Downstream**, focusing on business activities of Downstream with the proposed activities and measures for improvement of the condition and acceleration of development, which included the following:
- Discussion on the market position and competitiveness of INA at domestic and foreign markets with presentation of key causes of the current decline and key steps for improvement of sales by markets in the future;
 - Report on reasons and facts that affected the delay of modernization of refineries;
 - Report on modernization of Rijeka Oil Refinery with an emphasis on Claus Unit (the issue of Claus Unit operation was regularly reported);
 - Report on the decision-making process for the crude oil procurement process
- e. Business Review of Retail BD**, which included the following:
- Retail status and development report;
 - Report on the plans and status of construction and reconstruction of INA filling stations and closure plans for INA FS;
- f. Business Review of Gas Trading Business**, specially focusing on business activities of gas trading with the proposed activities and measures for improvement of the condition and acceleration of development
- 3. Pursuant to the Companies Act (Article 250) the SB required from the Management Board to report on other matters of importance for business activities and the condition of the company, as follows:**
- g. Report on the development and business operations of the INA Group companies, as follows:**
- Report on business operation and development plans of the Company Croscod.o.o. (Development strategy of the company and SWOT analysis);
 - Information on the business relations between the R.O.S. Agency and Croscod.o.o.;
 - Report on the restructuring of Sinaco d.o.o.;
 - Report on the business operations and strategy of Maziva d.o.o.

h. Reports on organizational issues and changes from the aspect of efficiency and benefits for INA, and particularly in relation to the position and the future of the workers

- Report and analysis of the governing/organizational structure of INA;
- Report on the GLOCAL project (organizational changes in MOL Group) with the Legal overview on the compliance with the Companies Act, Shareholders Agreement and bylaws of INA;
- Information on the restructuring of certain Sectors within Retail Business, proposal on changes and reasons with cost and benefit analysis
- Report on the requirement of re-establishment of organizational unit for strategic development and planning
- Report on outsourcing of Help desk services from INA;
- Report on resolution of the issue regarding workers that remained at INA after establishment of Top Računovodstvo d.o.o.;
- Issues related to Negotiations between social partners.

i. Reports on legal and legislative affairs and procedures

- Proposal based on the request of SB members, nominated by MOL, to discuss potential effects of certain witness statements on INA d.d and on its shareholders, made by SB and MB members in the ongoing court case of Ivo Sanader
- Report on the risk assessment regarding main criminal charges (proceedings) in relating to INA, with evaluation of potential financial and other business damages, as well as measures undertaken;
- Report on the Decision by HANFA and implementation of measures by INA with a review and assessment of legal and material consequences after the charges made by HANFA and INA;
- Report on the classified legal disputes of INA and report on the services of external attorneys (selection process and criteria, and fees).

j. Reports on some other relevant economic and financial business issues

- Information on activities related to preparation of the Report on the audit of business processes and purchases of oil and oil products (and economic, financial and legal analysis) from 1996 to 2012;
- Information about refinancing of existing credit facilities of INA; reasons behind and costs;
- Report on amortization of assets of INA, d.d.;

4. Establishment of the SB Commission pursuant to the Companies Act Article 264, paragraph 3

- Proposal for establishment of the SB Commission for preparation of preliminary budget and milestone schedule for investments for continuation of modernization of refineries in Sisak and Rijeka

5. Internal report and Corporate Security Sector Reports

Supervisory Board received and discussed Internal Audit Reports, and periodically discussed Corporate Security reports

Results of the examination of the Management Board report on relations with the governing company and affiliated companies thereof

Management Board submitted to the Supervisory Board Report of the Management Board on relations with the governing company and affiliated companies thereof (Report of the Subsidiary), compiled in accordance with Articles 474 and 497 of the Companies Act and in conformity with the principles of conscientious and accurate accounting.

According to the opinion of the Management Board, relations of the affiliated companies in the business (calendar) year 2012, that were realized by contractual affiliating and undertaking of other legal actions, were within the scope of regular business and entrepreneurial relations, and performed in standard conditions and by application of regular prices.

The Company's Auditor, Deloitte d.o.o., Zagreb inspected and examined Management Board's Report on the relations of the affiliated companies and provided unqualified opinion, according to which the report is in compliance with the Article 497 of the Companies Act.

The Supervisory Board has no objections to the results of the Auditor's examination of the Management Board's Report on relations with the governing company and the affiliated companies thereof.

After the examination of the Management Board's Report, statements of the Management Board and the results of the Auditor's examination, the Supervisory Board hereby states that according to the circumstances that were known at the time of undertaking of the legal affairs and actions stated in the stated Management Board's report, the Company received corresponding counteraction for each legal affair, without any damage to the Company.

Results of the examination of the annual financial statements and the Auditor's Report, Management Board's Report on the status of the business operations for the business year 2012 and proposal of the decision on utilization of the profit.

The Supervisory Board issued an order to the Company's Auditor, Deloitte d.o.o., to examine the annual financial statements of INA, d.d. for the year 2012.

After examining financial statements of the Company and consolidated financial statements of INA Group, the Supervisory Board established that in 2012 the Company acted in accordance with the law, bylaws of the Company and decisions of the General Assembly, and that the annual financial statements were made in line with the business records of the Company, and that they accurately represent the state of the assets and business of the Company. The Supervisory Board has no objections to the Auditor's Report on the examination of the annual financial statements and consolidated financial statements for INA Group in 2012.

The Supervisory Board has no objections to the audited financial statements submitted by the Management Board and it hereby gives consent to the submitted audited financial statements, whereby the stated financial statements are to be deemed as adopted by the

Management Board and the Supervisory Board, and they are to be presented to the General Assembly.

The Supervisory Board examined the Annual Report on the business status of INA Group in 2012 and has no objections to the delivered report. Furthermore, the Supervisory Board has no objections to the statement on the Code of Corporate Governance applied under the above-stated Report. The Supervisory Board has no objections to the statements provided in the answers from the questionnaire attached, which was filled out as requested by the Zagreb Stock Exchange, and states that the answers provided in this questionnaire were given to best of their knowledge and were true in their entirety.

The Supervisory Board considers the proposal of the Management Board on utilization of the profit to be in line with the business results and in accordance with the business plan for the current year, and that it is protective of the interests of the Company and the shareholders and in accordance with Croatian legislation.

Therefore, the Supervisory Board gives its consent to the net profit distribution proposal of the Management Board, whereby the amount of HRK 1,323,177,412.93 will be allocated in a way that HRK 66,158,870.65 is set as legal reserves, HRK 343,600,000.00 (meaning HRK 34,36 per share and HRK 913.418.542.28 is allocated to retained earnings. Joint proposal of the Management Board and the Supervisory Board on the utilization of profit in 2012 is to be referred to the General Assembly for adoption of decision.

Summary

Management Board of the Company regularly informed the Supervisory Board of the Company's business, state of assets and liabilities, revenues and organizational and other changes related to management of the Company's business.

In view of the above, the Supervisory Board will submit this Report on the Supervision of the Conduct of Company's Business in 2012 to the General Assembly of the Company.

**PRESIDENT OF THE SUPERVISORY
BOARD**

**VICE PRESIDENT OF THE SUPERVISORY
BOARD**