

SUPERVISORY BOARD

Av. V. Holjevca 10
ZAGREB

No: 1-6/16
Date: 30.03.2016.

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., at the date of issuing 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 of the Supervisory Board: Mr. József Molnar, Mr. Szabolcs I. Ferencz, Mr. Željko Perić, Mr. Mladen Proštenik, Mr. Ferenc Horváth, Mr. Oszkár Világi and Ms. Maja Rilović, as the workers' representative, hereby submits to the General Assembly the following

**REPORT
ON THE SUPERVISION OF THE CONDUCT OF COMPANY'S BUSINESS IN 2015**

This report includes the following:

- Method and the extent in which the Supervisory Board performed supervision of the Company's business in 2015,
- Results of examination of the annual financial statements as at 31 December 2015, together with the Auditor's Report and proposal for loss coverage,
- Results of examination of the Management Board's report on the status of business operations in 2015,
- Results of examination of report on relations with the governing company and affiliated companies thereof.

Corporate profile

On 31 December 2015, 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:

ZAGREBAČKA BANKA D.D./UNICREDIT BANK HUNGARY ZRT. - MOL NYRT. 4.908.207 dionica, DRŽAVNI URED ZA UPRAVLJANJE DRŽAVNOM IMOVINOM / REPUBLIKA HRVATSKA 4.483.552 dionica, SOCIETE GENERALE-SPLITSKA BANKA D.D./ AZ OMF KATEGORIJE B 227.685 dionica, HYPO ALPE-ADRIA-BANK D.D./ RAIFFEISEN OMF KATEGORIJE B 80.000 dionica, HYPO ALPE-ADRIA-BANK D.D./ PBZ CO OMF - KATEGORIJA B 66.170 dionica, SOCIETE GENERALE-SPLITSKA BANKA D.D./ ERSTE PLAVI OMF KATEGORIJE B 46.100 dionica, ZAGREBAČKA BANKA D.D./ MERRILL LYNCH INTERNATIONAL/CLIENTS ACCOUNT 24.479 dionica, ZAGREBAČKA BANKA D.D./ZBIRNI SKRBNIČKI RAČUN ZA UNICREDIT BANK AUSTRIA AG 20.791 dionica, ZAGREBAČKA BANKA D.D./ AZ PROFIT DOBROVOLJNI MIROVINSKI FOND 10.755 dionica i ZAGREBAČKA BANKA D.D./STATE STREET BANK AND TRUST COMPANY BOSTON 5.362 dionica

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Avenija Većeslava Holjevca 10 10 002 Zagreb p.p. 555 Hrvatska - Croatia Telefon - Telephone +385(1)6450000 Faks - Fax + 385(1)6452100	Banka - Bank Privredna banka Zagreb d.d. Raiffeisenbank Austria d.d. Zagrebačka banka d.d. Societe Generale-Splitska banka d.d. OTP banka Hrvatska d.d. Hrvatska poštanska banka d.d. Sberbank d.d. NATIXIS UniCredit Bank Austria AG BNP Paribas (Suisse) SA ING Bank NV Credit Agricole (Suisse) SA	Adresa - Address Radnička cesta 50, 10000 Zagreb Petrińska 59, 10000 Zagreb Trg bana Josipa Jelačića 10, 10000 Zagreb R. Boskovića 16, 21000 Split Domovinskog rata 3, 23000 Zadar Jurjišćeva 4, 10000 Zagreb Varšavska 9, 10000 Zagreb Avenue Pierre Mendes 30, 75013 Paris Schottengasse 6-8, A-1010 Wien Place de Hollande 2, Case Postale 5060 1211 Geneve 11 PO BOX 1800, 1000 BV Amsterdam 4 quai General - Guisan, CH 1204	IBAN broj - IBAN Number HR92 2340 0091 1000 2290 2 HR70 2484 0081 1006 1948 3 HR62 2360 0001 1013 0359 5 HR91 2330 0031 1002 0454 6 HR96 2407 0001 1001 5214 9 HR78 2390 0111 1003 3707 6 HR75 2503 0071 1000 6218 3 FR76 30007 99999 27 021 672 000 59 AT21 1200 0528 4400 3466 (EUR) AT91 1200 0528 4400 3467 (USD) CH95 0868 6001 0887 4000 2 (EUR) CH25 0868 6001 0887 4000 1 (USD) NL98 INGB 0650 7815 38 (EUR) NL23 INGB 0020 0370 90 (USD) CH36 0874 1016 2235 0000 1	Trgovački sud u Zagrebu Commercial Court in Zagreb MBS: 080000604 Uplaćen temeljni kapital – Paid capital stock 9.000.000,00,00 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 OIB – 27759560625 PDV identifikacijski broj / VAT identification number HR27759560625
Predsjednik i članovi Uprave / President and members of the Management Board: Zoltán Áldott, Niko Dalić, Gábor Horváth, Ivan Krešić, Davor Mayer, Péter Ratatits Predsjednik Nadzornog odbora / President of the Supervisory Board: Siniša Petrović				

Last update of the Company's top ten shareholders is available 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.

The Company's shares have been listed on the Zagreb Stock Exchange since 1 December 2006.

At the date of issuing of this report, the Supervisory Board comprised of five members elected based on the proposal put forth by MOL Plc. to the 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 2015 the Supervisory Board of the Company comprised the following members:

- Mr. Siniša Petrović, President of the Supervisory Board
- Mr. György Mosonyi, Vice President of the Supervisory Board
- Mr. József Molnár, member of the Supervisory Board
- Mr. Szabolcs I. Ferencz, member of the Supervisory Board
- Mr. Željko Perić, member of the Supervisory Board
- Mr. Mladen Proštenik, member of the Supervisory Board
- Mr. Ferenc Horváth, member of the Supervisory Board
- Mr. Oszkár Világi, member of the Supervisory Board
- Ms. Maja Rilović, member of the Supervisory Board as the workers' representative

Audit Committee

The Audit Committee also participated in the supervision of the Company's business, acting as an auxiliary committee of the Supervisory Board, and in 2015 it held 5 (five) meetings, at which it reviewed Flash Reports, appointment of external auditor for 2015 and had no objections proposed appointment, audit results; it reflected on the performance of the external auditor and reviewed Internal Audit Status Reports.

In 2015 and at the date of issuing of this report, members of the Committee were as follows: Mr. Željko Perić, Audit Committee Chairman, Mr. József Molnár, Mr. József Simola and Mr. Damir Vandelić, Audit Committee Members.

Management Board

In 2015 and at the date of issuing of this report, the Management Board of the Company was 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. Gabor Horváth, Mr. Davor Mayer, Mr. Péter Ratatics and Mr. Ivan Krešić, members of the Management Board of the Company.

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Supervision conducted in 2015

In 2015, the Supervisory Board supervised the conduct of business of INA – Industrija nafte d.d., as a share based company, within the scope of its legal and statutory responsibility.

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 (voting in written form).

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 holding discussions on the current matters and issues, whereby the following topics were of particular importance:

1. Pursuant to the provisions of the Articles of Association of INA, d.d. (Article 17), the Supervisory Board provided prior consent for the following decisions:

- Approval of INA Group 2016 Business Plan

2. The Supervisory Board paid particular attention to the review and supervision of specific business issues and the following topics:

- Report on CAPEX realization and cash flow (*continuous reporting at every regular meeting*),
- Financial Risk Report (*quarterly report*),
- INA SD & HSE Performance Review (*quarterly report*),
- Impact of low oil price environment on INA's business and actions taken in response Overview of global and regional macroeconomic trends,
- Macroeconomic and oil market update,
- The Supervisory Board reviewed and discussed issues related to defining the strategy of INA Group,
- Status of Residue Upgrade Project in Rijeka Refinery,
- Status of Pilot project for involving entrepreneurs into the operation of INA's filling stations – actions taken and expected further steps,
- Information on business relationship with Petrokemija – current status,
- Report about INA HR related thematic session,
- Status on business development projects
- Report on on-shore and off-shore concessions,
- Information on New Retail Agreement,
- Overview of Retail BD,

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- Overview of Refinery & Marketing BD,
- Update on open questions with Janaf,
- Overview of Exploration & Production BD.

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

The 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 2015 were realized within the scope of regular business and entrepreneurial relations, and performed in standard conditions and by application of regular prices.

The Company's Auditor, Ernst & Young d.o.o., Zagreb reviewed and examined the Management Board's Report on relations with the affiliated companies, i.e. compliance with Article 497 of the Croatian Companies Act and provided unqualified opinion that the report was prepared correctly based on accounting records and notes and in line with the audited financial statements for the year ended on 31 December 2015.

The Supervisory Board was informed about the audit results and 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 the Company, according to the circumstances that were known at the time the legal affairs and actions stated in the stated Management Board's report were attended to, received a respective counteraction for each legal affair, without any damage to the Company.

Results of the examination of the Financial Statements and the Auditor's Report, Management Board's Report on the status of the business operations for the business year 2015 and proposal of the decision on the allocation of profit of INA d.d.

The Supervisory Board issued an order to the Company's Auditor, Ernst & Young d.o.o. to examine the financial statements of the Company and consolidated financial statements of INA d.d. for the year 2015.

After consideration of the audited financial statements of the Company and consolidated financial statements of INA Group in 2015, the Supervisory Board established that the Company acted in 2015 in accordance with the law, the Company procedures as well as General Assembly resolutions and that the annual financial statements have been prepared in accordance with Company's accounting records and that they indicate correct asset and business status of the Company, present fairly financial position of the Company and the Group as at 31 December, 2015, their financial performance and cash flows.

The Supervisory Board has no objections to the Auditor's Report on the examination of the annual financial statements of the Company and consolidated annual financial statements for INA Group for the business year 2015.

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The Supervisory Board has no objections to the audited annual financial statements submitted by the Management Board and approves the submitted audited financial statements, whereupon the stated financial statements are deemed as adopted by the Management Board and the Supervisory Board, and they are to be presented to the General Assembly.

The Supervisory Board reviewed the report on the Company and INA Group status for the business year 2015 and has no objections to the submitted 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 completed 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 that the proposal of the Management Board on coverage of loss of INA, d.d. for the year ended 31 December 2015 is in line with the business results and protects the interests of the Company and its shareholders and is in accordance with positive regulations of the Republic of Croatia.

Therefore, the Supervisory Board gives its consent to the proposal of the Management Board to cover the loss in the amount of HRK 1,202,448,637.19 with retained earnings in the amount of HRK 892,554,494.78, and to cover the remaining amount of HRK 309,894,142.41 with legal reserves. The joint proposal of the Management Board and the Supervisory Board on the 2015 profit allocation will be submitted to the General Assembly for approval.

Summary

The 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.

Supervisory Board analyzed realization of the planned results and implementation of the main objectives of the business policy of the Company in 2015.

Aside from the financial results in 2015, the Supervisory Board examined and gave consent to the INA Group 2016 Business Plan, and acknowledged the Overview for 2017-2018.

In view of the above, the Supervisory Board will submit this Report on the Supervision of the Conduct of Company's Business in 2015 to the General Assembly of the Company.

PRESIDENT OF THE SUPERVISORY BOARD

Siniša Petrović

VICE PRESIDENT OF THE SUPERVISORY BOARD

György Mosonyi

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