

INA - INDUSTRIJA NAFTE, d.d.

**MANAGEMENT AND SUPERVISORY BOARD
REMUNERATION REPORT FOR 2020**

**TOGETHER WITH INDEPENDENT
LIMITED ASSURANCE REPORT**



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Independent limited assurance report on Remuneration Report for the year 2020

To the Management board and Supervisory board of INA - Industrija nafte, d.d.

We have been engaged by the Management board of INA - Industrija nafte, d.d. ("the Company"), in order to perform, on the basis of the provisions of Article 272r, paragraph 3 of the Companies Act, an engagement expressing a limited assurance on the attached Remuneration Report for the year ended 31 December 2020 ("Remuneration Report") prepared by the Company's Management board and Supervisory board.

Our task, based on the procedures performed and the evidence gathered, is to express a conclusion in the form of an independent report expressing a limited assurance on the examination of the Remuneration Report.

Underlying Subject Matter and Applicable Criteria

The limited assurance engagement relates to the following subject matter on which the following applicable criteria are applied:

- Remuneration Report prepared by the Company for the year ended 31 December 2020 contains data in accordance with the Article 272r, paragraphs 1 and 2 of the Companies Act.

The applicable reporting criteria for identifying the individuals to be included in the Remuneration Report and the disclosure requirements of their remuneration are contained in the provisions of Article 272r, paragraphs 1 and 2 of the Companies Act.

Management board and Supervisory board Responsibilities

The Company's Management board and Supervisory board are responsible for:

- preparing the Remuneration Report for the year 2020 in accordance with the disclosure requirements of Article 272r, paragraphs 1 and 2 of the Companies Act,
- identifying the individuals to be included in the Remuneration Report in accordance with Article 272r, paragraph 1 of the Companies Act,
- selecting and applying appropriate remuneration policies as well as making judgments and estimates that are reasonable in relation to the data disclosed in the Remuneration Report,
- measurement of remunerations for the year ended 31 December 2020 in accordance with the provisions of Article 272r, paragraphs 1 and 2 of the Companies Act, and
- publishing the Remuneration Report on the Company's website in accordance with the provisions of Article 272r, paragraph 4 of the Companies Act.

The Company's Management board and Supervisory board are responsible for the design, implementation and maintenance of the internal control system which reasonably ensures that the previously described data do not contain material errors, whether due to fraud or error. In addition, the Company's Management board and Supervisory board are responsible for ensuring that the documentation provided to us is complete and accurate.



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Our Responsibilities

We conducted our assurance engagement in accordance with the requirements of Article 272r, paragraph 3 of the Companies Act, and in accordance with international standard on assurance engagements (ISAE) 3000 (revised) - Assurance engagements other than audits or reviews of historical financial information. These regulations require that we comply with ethical standards and plan and perform our assurance engagement to form a conclusion based on the evidence gathered as to whether the report contains the information required in accordance with the relevant legal requirements.

We apply International Standard on Quality Control 1 (ISQC 1), and accordingly, we maintain a robust system of quality control, including policies and procedures documenting compliance with relevant ethical and professional standards and requirements in law or regulation.

We comply with the independence and other ethical requirements of the IESBA Code of Ethics for Professional Accountants, which establishes the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The nature and extent of our procedures were determined based on our risk assessment and our professional judgment in order to obtain limited assurance.

In respect of the subject matter, we have performed the following procedures:

- inquired members of the Management board and Supervisory board and other persons within the Company, to gain understanding of remuneration policies and the process applied in preparing the Remuneration Report;
- received from the Company a list of all members of the Company's Management board and Supervisory board during 2020 and checked whether their remunerations are disclosed in the Remuneration Report;
- reconciled the remuneration data presented in the Remuneration Report with the Company's accounting records (general ledger and subledgers) for the year ended 31 December 2020
- reviewed, on a sample basis, the relevant documentation of the Company (contracts and payments) related to the remuneration data presented in the Remuneration Report; and
- checked whether the Remuneration Report contains all the data required by the provisions of Article 272r, paragraphs 1 and 2 of the Companies Act.

A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our limited conclusion.

Limited assurance conclusion

Based on the procedures performed and evidence obtained, nothing has come to our attention that causes us to believe that Remuneration Report for the year ended 2020 prepared by INA - Industrija nafte, d.d. does not contain data, in all material respects, in accordance with the Article 272r, paragraphs 1 and 2 of the Companies Act.



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Restrictions on the use of our Report

Our report is intended solely for the Company's Management board and Supervisory board for the purpose of reporting on the Remuneration Report prepared by the Company for the year ended 31 December 2020 in accordance with Article 272r of the Companies Act. Our report is not, nor does it represent, a legal opinion on compliance with Article 272r of the Companies Act.

In the case of additional information or data provided to us, or in the case of misleading oral or written statements or explanations, our findings, interpretations or conclusions in our independent limited assurance report may be incomplete or may result in the need for additional procedures not included in the scope of this engagement.

To the fullest extent permitted by law, we do not accept responsibility and do not agree to any obligations to any party other than the Company's Management board and Supervisory board, in connection with our work or this independent limited assurance report or the conclusions we have reached.

A handwritten signature in blue ink, appearing to read 'Berislav Horvat', is written over a horizontal line.

Berislav Horvat
President of the Management board and certified auditor

Ernst & Young d.o.o.
Radnička cesta 50
10000 Zagreb
Republic of Croatia

4 May 2021

Attachment

1. Management board and Supervisory board Remuneration Report for 2020

Pursuant to Article 272r of Company Act (CA), Management Board and Supervisory Board of INA – INDUSTRIJA NAFTE, d.d. Zagreb submitted the following:

MANAGEMENT BOARD AND SUPERVISORY BOARD REMUNERATION REPORT FOR 2020

1. Introduction

INA's corporate management structure is based on dualistic system which includes Supervisory Board and Management Board which – together with General Assembly – represent three mandatory INA corporate bodies in line with INA Statute and CA.

INA's compensation strategy is regulated within Company internal documents with the aim to ensure competitive remuneration package as remuneration plays an important role in supporting the achievement of Company goals. Through the design of its incentive schemes, Company aims to ensure that manager/employee remuneration supports their private interests, Company's strategic objectives and interests of the shareholders.

This report is prepared in line with the Company's internal documents and procedures, including Remuneration policy for INA – INDUSTRIJA NAFTE, d.d. Management Board members (hereinafter referred as: Remuneration policy) and Decision on remuneration to the Supervisory Board members approved by General Assembly on 26 August 2020.

Further to the year 2020 and exceptional circumstances which were caused by COVID-19 crisis in Croatia, as well as in Europe and the world, INA introduced measures which affected employees' remuneration in order to secure financial stability and business continuity.

2. Management Board

In accordance with Companies Article of Association, INA Management Board (further in text: MB) is formed by 6 members who are entitled to receive management fee for the work performed in line with the INA Supervisory Board decision on the salary and fee for Management Board members.

During year 2020, from 1 January until 31 December, INA Management Board members were the following:

- Sándor Fasimon – President of the Management Board,
- Niko Dalić – MB member,
- Ivan Krešić – MB member until 31.3.2020,
- Davor Mayer – MB member until 31.3.2020,
- Barbara Dorić – MB member from 1.4.2020,
- Darko Markotić – MB member from 1.4.2020,
- Zsolt Pethö – MB member and,
- Dr. Ákos Székely – MB member.

Status of MB members is regulated via two different contracting forms:

- Employment Contract – for MB members which are in employment relationship with INA, these MB members receive salary for the work performed in MB based on this contact.
- Service Contract for performing the role of Management Board members – for other MB members which are entitled to management fee for based on these contracts.

INA Supervisory Board has passed the Remuneration policy on salary/fee amount for MB members as well as the applicable percentage (%) of annual bonus which represents variable part of the total income for MB members.

2.1. MB members income

INA MB members are entitled to the fee for their MB membership role which is comprised of fixed and variable part. In addition to this, they are entitled to different benefits in kind based on the Company's internal regulations and decisions.

In accordance with the Remuneration policy, MB members are entitled to receive an income for performance of his/her function/tasks as a MB member only in case if he/she is not employed full time in any company within the INA/MOL Group.

Since INA MB members act and pass decisions together as the company body, as well as have same scope of responsibilities in order to act in Company's best interest, fixed monthly salary/fee for MB membership in INA is defined in unique and equal amount for all MB members and amounts to gross 78,000 HRK. Exceptionally, President of the Management Board is employed on a part-time basis (20 hours per week) and for his work he receives the above stated fixed monthly salary/fee.

In period from April to June 2020, INA MB members voluntarily agreed to salary decrease of 25% as INA faced business difficulties due to COVID-19 crisis which reached its' peak during spring months due to introduced lockdown in Croatia, as well as in Europe and rest of the world which caused drastic decrease of oil price. However, voluntary salary decrease to which INA MB members agreed does not have an impact on the bonus basis and the bonus calculation for 2020. Full monthly base salary will be used as a basis for 2020 bonus calculation.

Same as in case of fixed monthly salary/fee, defined variable part of the fee (bonus) for INA MB members, target setting and respective evaluation are aligned/equal for all MB members. Variable part of the fee (bonus) is defined as the percentage (%) of the annual fixed fee and amounts to 65% for 100% annual target evaluation.

Performance management system enables the Company's owners/shareholders to direct business behavior and decisions of managers toward accomplishment of short-term and long-term Company goals through set individual goals. From Company's owners/shareholders perspective, the ultimate goal is to create added value and profit and following to this, for 2019 the MB members had specific defined goals related to main financial indicators (CAPEX, EBITDA, FTE, etc.). Due to the fact that sustainable development and safety are high priorities within the Company, in the scope of performance management system for the MB members a target related to TRIR (Total Reportable Injury Rate) was set. The targets are compared to the planned values using the following weights in calculating the total variable achievement: EBITDA target 40%, CAPEX 30%, FTE 15% and TRIR 15%.

Considering their management function within the Company, their overall responsibility for Company's results and Company's success, as well as obligation for creation of added value for Company's stakeholders, INA's corporate targets for year 2019 represent the individual targets of MB members. When defining the amount of variable part of the fee (bonus), the evaluation of set targets is performed and the respective percentage of the accomplishment for each separate target has been calculated. Based on these individual target evaluations, the weighted sum of target accomplishments is calculated which for year 2019 has been calculated to 104%. In line with this 2019 evaluation, INA MB members should have received the variable part of the fee (bonus) for the year 2019 in the amount of 630,242 HRK for reference period¹.

- Basis for bonus calculation: 78,000 HRK * 12 months = 936,000 HRK
- Potential bonus entitlement for 100% target achievement: 936,000 HRK * 65% bonus = 608,400 HRK
- 2019 bonus pay-out: 608,400 HRK * 104% realization = 630,242 HRK

However, in 2020 the variable part of the fee (bonus) for 2019 was not paid in full amount to INA MB members. The amount which was paid in 2020 is net HRK 5,000 while remaining part of the bonus was paid out in 2021.

Amount of gross income paid in 2020 (regardless of the period for which the amount relates to) for active INA MB members is shown in table below:

Name of Director, position	Reported financial year/Year -1	1 Fixed remuneration			2 Variable remuneration		3 Extraordinary items	4 Pension expense	5 Total Remuneration	6 Proportion of fixed and variable remuneration
		Base salary	Fees	Fringe benefits	One-year variable	Multi-year variable				
Sándor Fasimon; President of the Management Board	2020	877,500	0	100,917	5,000	0	0	983,417	99% : 1%	
	2019	936,000	0	143,666	300,566	0	0	1,380,232	78% : 22%	
Niko Dalić; Management Board Member	2020	877,500	0	56,758	5,000	0	0	939,258	99% : 1%	
	2019	936,000	0	51,992	596,232	0	0	1,584,224	62% : 38%	
Darko Markotić*; Management Board Member	2020	565,500	0	41,369	0	0	0	606,869	100% : 0%	
	2019	0	0	0	0	0	0	0	-	
Barbara Dorčić*; Management Board Member	2020	565,500	0	41,593	0	0	0	607,093	100% : 0%	
	2019	0	0	0	0	0	0	0	-	
Zsolt Pethő**; Management Board Member	2020	0	0	0	0	0	0	0	-	
	2019	0	0	0	0	0	0	0	-	
dr. Ákos Székely**; Management Board Member	2020	0	0	0	0	0	0	0	-	
	2019	0	0	0	0	0	0	0	-	

Notes:

*INA Management Board members from 1/4/2020

**INA Management Board members employed for full time in MOL Group company are not entitled to fee for INA MB membership

Fringe benefits include income related to private usage of business car, internal representation and meal expenses.

Apart from the above stated fixed and variable gross taxable elements, INA MB members are entitled to the following benefits in kind:

- Additional Health insurance policy in the same scope as other INA employees,
- Entitlement to annual managerial check-up.

¹ INA MB members who were not appointed to MB during entire year 2019 are entitled to proportional part of the variable part of the fee (bonus), in line with appointment duration.

Total cost for the Company for the benefits in kind/entitlements is 6,250 HRK.

2.2. Former MB members income

During year 2020, there were changes in INA MB member appointments and the Company did have pay-outs linked to early recall from MB membership or regular end of membership as follows:

Name of Director, position	Reported financial year/Year -1	1 Fixed remuneration			2 Variable remuneration		3 Extraordinary items	4 Pension expense	5 Total Remuneration	6 Proportion of fixed and variable remuneration
		Base salary	Fees	Fringe benefits	One-year variable	Multi-year variable				
Ivan Krešić*; Management Board Member	2020	390,000	0	19,980	627,120	0	1,162,572	0	2,199,672	19% : 82%
	2019	936,000	0	50,780	596,232	0	0	0	1,583,012	62% : 38%
Davor Mayer*; Management Board Member	2020	390,000	0	26,573	627,120	0	1,214,572	0	2,258,265	18% : 82%
	2019	936,000	0	52,506	596,232	0	0	0	1,584,738	62% : 38%

Notes:

* INA Management Board members until 31/3/2020; end date of employment 30/4/2020

2.3. Overview of the Company's income and income of MB members

In line with Reward strategy, when defining the minimum and maximum salary amounts for specific job position, INA is monitoring its market placement and aligns the pay scales with the corresponding job complexity, responsibilities and dimensions of each position, as well as mandatory qualifications. In order to be able to do this, INA is regularly participating in market research and continuously tracking salary and total cash movements on the Croatian market.

Additionally, when defining the pay scales and other benefits for each job position, INA is dedicated to maintaining internal consistency and equality within the Company. Furthermore, INA is fostering performance driven culture and is dedicated to rewarding and recognizing the individual performance and target achievement.

Year	in mln HRK			in HRK	
	Total Company revenues	Company net profit	INA d.d. reported EBITDA	Average gross annual income per employee	Average gross annual income of MB members
2016	15,059	160	2,546	171,171	1,303,201
2017	18,385	1,426	3,461	166,625	1,497,459
2018	21,924	1,334	3,038	171,435	1,294,751
2019	21,613	656	2,599	181,898	1,119,082
2020	14,221	-933	849	179,863	784,159

Average annual gross income per employee represents both fixed (regular salary, shift allowances, readiness and overtime etc.) and variable incomes (as annual and quarterly bonuses or various awards) as well as other material rights (such are commuting costs, Christmas bonus, Easter bonus, Holiday allowance, jubilee award, field work allowance, financial supports, gift for children and etc). Head count (HC) for specific year was calculated as average closing number of HC for each month in the specific year.

The income of INA MB members represents also all fixed and variable parts of compensation paid in respective period and the fact that INA MB consists of 4 members who receive income while 2 other MB members do not receive remuneration from INA for MB position.

2.4. Additional information

INA MB members are not entitled to income in shares or Company's share options, nor do they have any other type of long term incentives. Furthermore, INA is not requesting the return of variable part of the fee (bonus) in any case.

As there were changes in INA MB member appointments during year 2020, the Company did have payouts linked to 'early recall from MB membership or regular end of membership' in the form of severance payment, allowance for unused vacation as well as non-competition fee and bonus for 2019 which was paid in full amount to respective former MB members as presented in the section 2.2.

For the work performed in 2020 the MB members might be entitled to bonus for 2020. Exact amount of the bonus shall depend on target evaluation, and the payout shall be done after the company's management bodies approve the payment of variable part (bonus). Additionally, former MB members are not entitled to bonus for 2020 for the period from 1.1.2020 until 31.3.2020 in which they were appointed as INA MB members.

MB members have not received, nor are they entitled to receive any remuneration from third parties in connection with the activities they performed as INA MB members.

3. Supervisory Board

In accordance with Company's Articles of Association of INA-INDUSTRIJA NAFTE d.d., INA Supervisory Board (further in the text: SB) supervises the work of INA Management Boards and it is consisted out of 9 members who are entitled for a SB fee for their work performed according to the decision of INA General Assembly.

During year 2020, from 1 January until 31 December, INA SB members were the following:

- Damir Vandelić – SB President,
- József Molnár – SB Vice-president,
- Luka Burilović – SB member,
- Szabolcs I. Ferencz – SB member until 17.12.2020,
- Ferenc Horváth – SB member until 17.12.2020,
- Damir Mikuljan – SB member,
- József Simola – SB member until 17.12.2020,
- László Uzsoki – SB member,
- Zsuzsanna Ortutay – SB member from 18.12.2020,
- Gabriel Szabó – SB member from 18.12.2020,
- Domokos Szollár – SB member from 18.12.2020,
- Jasna Pipunić – employee representative within SB.

3.1. SB members income

INA General Assembly has passed the Decision on remuneration to the INA – INDUSTRIJA NAFTE, d.d. Supervisory Board members where the rights and entitlements of the SB members are defined, along with the way how the fee is determined. In line with the mentioned Decision, the following entitlements are determined:

- SB President is entitled to the fee for the work performed in the amount of three average paid net salaries of the INA employees' in previous month.
- SB members are entitled to the fee for the work performed in the amount of two average paid net salaries of the INA employees' in previous month.

Amount of the total gross paid income in year 2020 for INA SB members is shown in the table below:

Name of Director, position	Reported financial year/Year -1	1 Fixed remuneration			2 Variable remuneration		3 Extraordinary items	4 Pension expense	5 Total Remuneration	6 Proportion of fixed and variable remuneration
		Base salary	Fees	Fringe benefits	One-year variable	Multi-year variable				
Damir Vandelić; President of the Supervisory Board	2020	0	480,016	0	0	0	0	0	480,016	100% : 0%
	2019	0	516,879	0	0	0	0	0	516,879	100% : 0%
Luka Buričević; Supervisory Board Member	2020	0	332,854	0	0	0	0	0	332,854	100% : 0%
	2019	0	325,818	0	0	0	0	0	325,818	100% : 0%
József Molnár*; Vice president of Supervisory Board	2020	0	0	0	0	0	0	0	0	-
	2019	0	0	0	0	0	0	0	0	-
Damir Mikuljan; Supervisory Board Member	2020	0	324,171	0	0	0	0	0	324,171	100% : 0%
	2019	0	318,211	0	0	0	0	0	318,211	100% : 0%
Jasna Pipunić; Supervisory Board Member ; employee's representative	2020	0	332,854	0	0	0	0	0	332,854	100% : 0%
	2019	0	326,734	0	0	0	0	0	326,734	100% : 0%
László Uzsoki; Supervisory Board Member	2020	0	282,552	0	0	0	0	0	282,552	100% : 0%
	2019	0	277,346	0	0	0	0	0	277,346	100% : 0%
Zsuzsanna Ortutay*; Supervisory Board Member	2020	0	0	0	0	0	0	0	0	-
	2019	0	0	0	0	0	0	0	0	-
Gabriel Szabó*; Supervisory Board Member	2020	0	0	0	0	0	0	0	0	-
	2019	0	0	0	0	0	0	0	0	-
Domokos Szöllár*; Supervisory Board Member	2020	0	0	0	0	0	0	0	0	-
	2019	0	0	0	0	0	0	0	0	-

Notes:

* Supervisory Board members in employment relationship with MOL Group company are not entitled to the fee for participation in INA SB

3.2. Additional information

INA SB members are entitled only to the above mentioned unified monthly fixed fee and are not entitled to any further variable part of the fee (bonus), nor to any other benefit in cash or kind. INA SB members are not entitled to income in shares or Company's share options, nor do they have any other type of long term incentives.

During 2020, there were changes in INA SB membership, but INA did not pay any fees towards former SB members nor are there any open claims in this respect.

SB members have not received, nor are they entitled to receive any remuneration from third parties in connection with the activities they performed as INA SB members.

4. Audit Committee

INA SB appoints Audit Committee which is consisted out of 3 members who are entitled for an Audit Committee fee for their work performed according to the decision of INA SB.

During year 2020, from 1 January until 31 December, INA Audit Committee members were the following:

- Judit Jolan Szilagyj – Audit Committee President,
- Ratko Marković – Audit Committee member,
- Hrvoje Šimović – Audit Committee member.

4.1. Audit Committee members income

INA SB has passed the Decision on remuneration for Audit Committee members (where the rights and entitlements of the Audit Committee members are defined, along with the way how the fee is determined). In line with the mentioned Decision, the following entitlements are determined:

- Audit Committee chairman is entitled to the fee for the work performed in the amount of one average paid net salary of the INA d.d. employees' in previous month.
- Audit Committee members are entitled to the fee for the work performed in the amount of 50% of one average paid net salary of the INA d.d. employees' in previous month.

Amount of the total gross paid income in year 2020 for INA Audit Committee members is shown in the table below:

Name of Director, position	Reported financial year/Year -1	1 Fixed remuneration			2 Variable remuneration		3 Extraordinary items	4 Pension expense	5 Total Remuneration	6 Proportion of fixed and variable remuneration
		Base salary	Fees	Fringe benefits	One-year variable	Multi-year variable				
Judit Jolán Szilagyj; Audit Committee President	2020	0	141,276	0	0	0	0	0	141,276	100% : 0%
	2019	0	138,673	0	0	0	0	0	138,673	100% : 0%
Ratko Marković*; Member	2020	0	78,487	0	0	0	0	0	78,487	100% : 0%
	2019	0	32,198	0	0	0	0	0	32,198	100% : 0%
Hrvoje Šimović*; Member	2020	0	83,217	0	0	0	0	0	83,217	100% : 0%
	2019	0	34,139	0	0	0	0	0	34,139	100% : 0%

Notes:

* AC members from 1/7/2019.

4.2. Additional information

INA Audit Committee members are entitled only to the above mentioned unified monthly fixed fee and are not entitled to any further variable part of the fee (bonus), nor to any other benefit in cash or kind. INA Audit Committee members are not entitled to income in shares or Company's share options, nor do they have any other type of long term incentives. During 2020, there were no changes in INA Audit Committee membership.

5. Approval of the report

This Management Board and Supervisory Board Remuneration Report for 2020 was approved and authorized by the Management Board and Supervisory Board on 4 May 2021.


Signed on behalf of the Company on 4 May 2021 by:

President of the Management Board:



Sandor Fasimon

President of the Supervisory Board:



Damir Vandelić

